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The Bank is not necessarily in agreement with the views expressed in articles appearing in this Review. They are published in order to stimulate free discussion and full inquiry.

The Past and Future of Public Spending

By Alan T. Peacock and Jack Wiseman

WITH government expenditure reaching more than 40 per cent. of the national income after the second world war, it is not surprising that the question of its size and control should have been one of considerable public interest in recent years, or that we should now be awaiting the report of a Committee which is expected to make important recommendations bearing upon the matter. But it would be a mistake to believe that this interest is of recent origin, or that it has taken a burden of taxation such as that experienced in Britain since the war to persuade observers of the need for reform.

As long ago as 1870, John Bright proposed that Parliament should agree to impose an upper limit of £70 millions per annum on public spending. Both the Geddes Committee in 1921 and the May Committee 10 years later were appointed to consider the problem of growing public expenditures, and both issued grave warnings about it—though the latter Committee was dubious from the beginning as to the possible value of its own recommendations for the control or reduction of public spending, "so heavily loaded are the dice in favour of expenditures".

Nor have the commentators ever spoken with one voice. Alongside the chorus of protest against the tax burden implied by growing public expenditures, there has been support for further spending: whether parliamentary support from those wishing to increase expenditure on particular projects, or support based upon the conviction that a generally rising volume of public spending was desirable in itself. The first

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Professor Peacock holds the Chair of Economic Science in the University of Edinburgh and Mr. Wiseman is a Lecturer at the London School of Economics. This article is partly based on their forthcoming book *The Growth of Public Expenditure in the United Kingdom*, to be published for the National Bureau of Economic Research Inc. by Princeton University Press and Oxford University Press in June, 1961.

edition of Dalton's *Principles of Public Finance*, published in 1922, criticizes the negative attitude of earlier writers to public expenditures, and the two Labour supporters on the May Committee signed a minority report advocating public spending on a wider scale.

It is also of interest that the growth of government expenditure, and controversy surrounding it, has not been confined to Britain. It is common to most, if not all, of the high-income non-Communist countries of the world. In almost all these countries—in France, Germany and the U.S.A., for example—the public sector has become the most important single factor in the economy, with upwards of 20 per cent. of gross national product being devoted to the provision of public goods. The universality of the interest in (and disagreement about) the question is sufficiently indicated by the fact that the slogan "private affluence, public squalor", which is becoming the battle-cry of the expenditure-minded in Britain, is the invention of an American professor.

It is not, of course, difficult to find reasons why there is likely to be a growth in the absolute volume of public spending in any country as national income rises: the German economist Adolph Wagner had drawn attention to most of the important influences tending in this direction in works published before the end of the nineteenth century. Thus, the process of economic growth brings with it an increasing complexity in social and economic relationships, and increasing public expenditures become a necessary condition for such things as the satisfactory functioning of a market economy. Increased public expenditures of other kinds (such as expenditure on what is called "infrastructure" investment) are regarded by many authorities as a prerequisite for continuous and stable economic growth, rather than simply as the consequence of such growth.

Again, as a community becomes richer, it is likely to choose to take some part of its increasing income in the form of public rather than private consumption. The extent to which this happens will depend, of course, upon the level of income and rate of development of the community concerned, and upon the tastes and preferences of its citizens. But while the growth in demand for publicly-provided goods and services as income rises is unlikely to be identical for all countries or at all stages of economic development, some such growth there is almost certain to be. Citizens are usually going to

want to take some part of their enlarging possibilities of consumption in the form of publicly-provided goods and services. A final reason (though it is not suggested that the reasons given here exhaust the possibilities) for expecting public expenditures to grow as income rises is that rising incomes facilitate acceptance—and even positive support from groups who stand to lose by it—of measures aimed at the redistribution of income and wealth, of a kind that can more effectively be carried out if the public sector is relatively large.

However, a rising volume of public spending over a period when national product is growing is equally compatible with an increasing, decreasing or constant *share* of a country's output passing through the hands of government. Arguments of the kind just mentioned may lead us to expect an *absolute* increase in government expenditure in such periods, but they do not indicate any particular size or rate of increase of the public sector relative to national income that can in some way be demonstrated to be "right". Indeed, there is a good deal more agreement about the kind of factors that are likely to influence the absolute growth of public expenditures than there is about their importance or inherent desirability. There is no agreed or common doctrine among economists or between nations as to the general principles by which the size and character of public expenditures should be determined, or about the precise rôle to be played by government spending for such purposes as the fostering of a rapid and stable rate of economic growth.

In the absence of such guiding principles, a good deal of the contemporary (and earlier) discussion of public expenditures is inevitably lacking in conviction; it offers little more than competitive assertions about the burdens and benefits of public spending. We do not wish to add to the flow of literature of this kind, since we do not believe ourselves able to put forward a set of principles that would command universal assent. We propose instead to limit ourselves to a survey of the history of British public expenditures during the last 60 years, in the hope that we shall be able to throw light on the influences that have affected the share of government in national income in the past, and that seem likely to limit or determine the scope of action of those who wish to change that share in the years ahead. In the process, we hope also to throw some light on the importance of the changes that have occurred in the relations between the British electorate, the government, and Parliament and its institutions.

II

PRINCIPAL INDICATORS OF EXPENDITURE GROWTH[1]

If we take the total money expenditures of central and local government as a first indicator of the evolution of public expenditures, we find that their absolute growth over the last 60 years has been colossal: from £281 millions in 1900 to £7,961 millions in 1959. Taking 1900 as 100, the rise in expenditure over the first half of the twentieth century was thus more than twenty-eight fold.

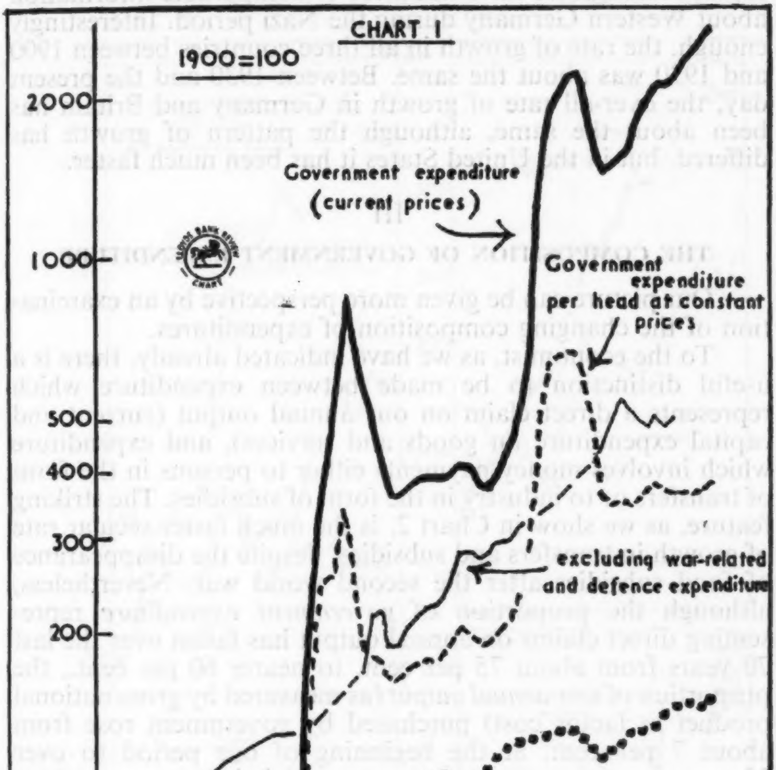
It is clear that this growth has been profoundly influenced by changes in the prices of goods purchased by government and in the salaries paid to employees in government service. The growth rate remains formidable, however, even when this factor is eliminated. In terms of 1900 prices, total "real" expenditure increased about five-fold: from £281 millions in 1900 to £1,354 millions in 1959.

A further influence of obvious importance is the growth in population: for the demand for government services must depend, at least to some extent, upon the numbers able to benefit from them. The influence of population changes on public spending is not a simple one. Conditions in Britain at the present day, for example, demand recognition of the fact that changes in the age-composition of population may be as important in this respect as changes in total numbers. If we allow for the rise in prices and increase in population by calculating government expenditure at 1900 prices *per head of population*, we still find an increase in spending from £3·6 per head in 1890 to £26 per head in 1959 (see Chart 1).

A rise in government expenditure per head over time need not necessarily mean a proportionate change in the slice of private incomes that is taken to provide the revenues which finance such spending, since national income may also be increasing. In fact, Chart 1 shows that national income (as measured by gross national product at factor cost) has risen at a much slower rate than public expenditures, both in real and money terms and, of course, per head of population. Accordingly, the proportion which government expenditure bears to national income has risen considerably: from about 9 per cent. in 1890, reaching a peace-time peak of 42 per cent.

[1] It would be impossible in a short article to discuss the methods of computation of the figures in this section or to list in detail the sources. For full particulars, the reader is referred to the Appendix of our forthcoming book.

in 1952 and declining somewhat to 37 per cent. in 1959. This comparison needs to be treated with some caution. Although it gives a reasonable indication of the growth in tax burdens, it is less precise for other purposes. In particular, it must be remembered that not all government expenditure represents a direct claim on the annual output of goods and services.



Nevertheless, the magnitude of the change in the government's "share" over the period as a whole is striking.

A parenthetical reference to expenditure growth in other countries may be of interest. The preliminary statistics available to us indicate that the growth of government expenditure per head at constant prices in U.S.A. and Germany has been rapid, although we have not a lot of comparable information about Western Germany during the Nazi period. Interestingly enough, the rate of growth in all three countries between 1900 and 1930 was about the same. Between 1930 and the present day, the over-all rate of growth in Germany and Britain has been about the same, although the pattern of growth has differed, but in the United States it has been much faster.

III

THE COMPOSITION OF GOVERNMENT EXPENDITURE

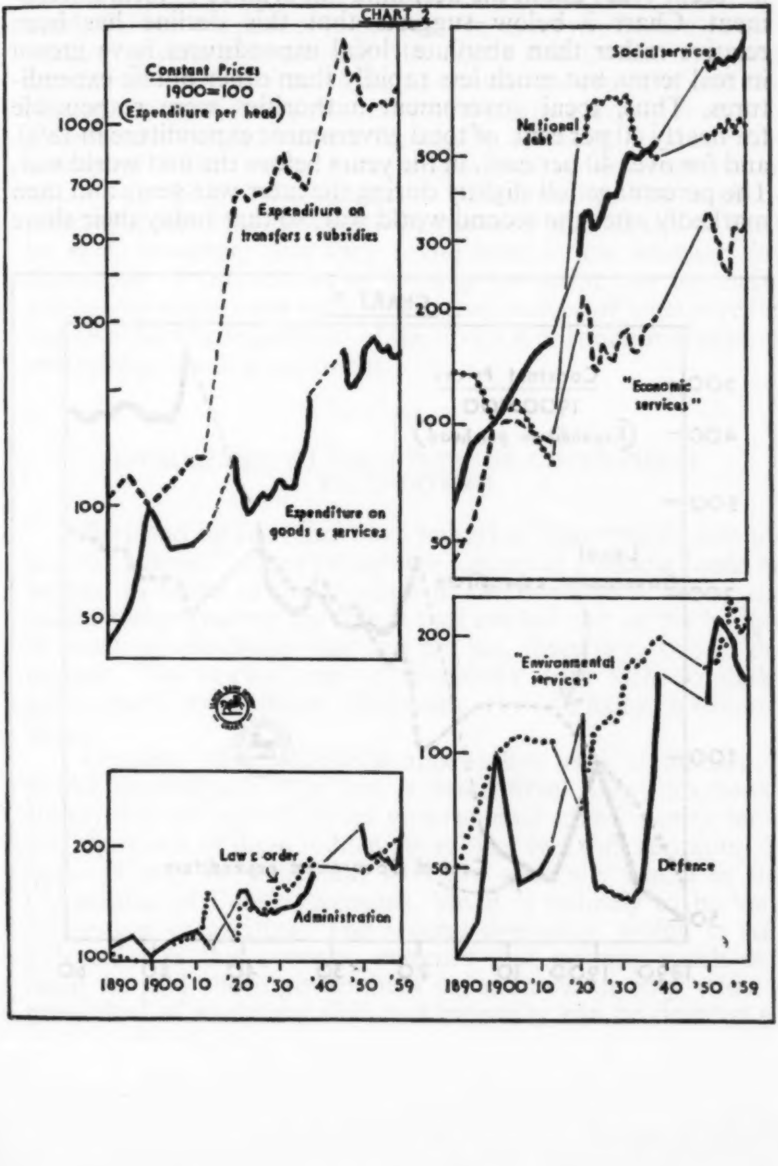
Our picture can be given more perspective by an examination of the changing composition of expenditures.

To the economist, as we have indicated already, there is a useful distinction to be made between expenditure which represents a direct claim on our annual output (current and capital expenditure on goods and services), and expenditure which involves money payments either to persons in the form of transfers or to industry in the form of subsidies. The striking feature, as we show in Chart 2, is the much faster secular rate of growth in transfers and subsidies, despite the disappearance of food subsidies after the second world war. Nevertheless, although the proportion of *government expenditure* representing direct claims on annual output has fallen over the last 70 years from about 75 per cent. to nearer 60 per cent., the proportion of our *annual output* (as measured by gross national product at factor cost) purchased by government rose from about 7 per cent. at the beginning of our period to over 25 per cent. in some recent years, and it is now somewhere about 23 per cent.

Further understanding of the changes that have taken place can be obtained by classifying public expenditures by type of service. The growth of the major services is shown in Chart 2. The most striking feature is the behaviour of social service spending. This is the largest single service at the beginning as at the end of our period, but Chart 2 shows the secular rate of growth to have been faster than that of public spending as a whole. In 1890, the £27·3 millions spent on

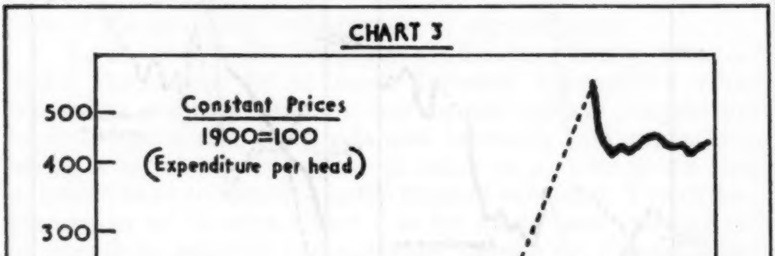
these services was over one-fifth of all public spending; in recent years the figure has been around £3,000 millions and has taken over 40 per cent. of all spending. Military and defence spending has also been important in absolute terms; the factors influencing the evolution of expenditure of this kind are discussed in Section V. The relatively slow rate of growth of the (absolutely less important) "economic" services

CHART 2



(e.g. services to agriculture, industry and transport) and "environmental" services (e.g. provision of such basic services as water supply and sewage disposal) since the second world war is an interesting commentary on our assessment of priorities.

Another method of classification is to divide expenditure between central and local government. Much has been written in recent years about the declining importance of local government. Chart 3 below suggests that this decline has been relative rather than absolute: local expenditures have grown in real terms but much less rapidly than other public expenditures. Thus, local government authorities were responsible for nearly 40 per cent. of total government expenditure in 1890, and for over 40 per cent. in the years before the first world war. The percentage fell slightly during the inter-war years and then markedly after the second world war, so that today their share



is somewhere about one quarter of the total. However, this is not the whole of the story.

There has been an even more rapid decline in the proportion of local government expenditure *financed* by local authorities. In the years preceding the first world war, local authorities financed from rates and other revenue approximately 70 per cent. of the services they provided. In the inter-war years, this percentage fell to around the 55 per cent. mark. Today it is nearer 45 per cent. In other words, centralization of government services has taken two forms: first, the transfer of services from local to central government and the concentration of the provision of new services largely in central government hands; second, increasing financial control from Whitehall of the services remaining in local government hands, notably in the fields of education and housing. The implications of these changes cannot be pursued here. It can at least be said, however, that they invite speculation whether any discussion of the reform of local government can be useful unless it considers not only alternative sources of local revenue but also the whole question of the division of functions between central and local government.

IV

APPROACHES TO THE STUDY OF GOVERNMENT EXPENDITURE

Bertrand de Jouvenel once remarked that "public finance is a dull subject". Even though the history of a people could be written in terms of the changes in the size and scope of the public sector (noting the things that are left out of the budget as much as the things that are put in), there is justice in the remark. The normal run of textbooks does little to make government expenditure illuminate the changing economic scene.

Consider three standard approaches used in discussing public expenditure. The first is descriptive. Many textbooks simply list the sort of things governments spend money on—and the worst of them reduce the subject to a dull recitation of facts. It may be important to know who sits where in the Committee of Public Accounts, but it is unlikely to be very interesting or exciting. The second approach, which is still influential in this country, assumes that nothing much can really be said about government expenditure anyway, while a great deal of analytical skill and ingenuity can be devoted to

examining the incidence and effects of the various taxes. In the hands of such writers, the government seems to become an organization apart from the individuals who compose it; and, while the student may learn how esoteric economic analysis can be used to show what happens if the government taxes certain individuals or subsidizes others, he is left to puzzle out the why and wherefore for himself.

A third approach, which owes much to the Swedish economist Wicksell, and which has undergone an interesting revival in the United States, tries to define the "proper" functions of the public sector by examining how far these functions require the use of a (political) voting system rather than the pricing system. While this is a highly interesting approach which adds realism to some of the rather arid discussions on "welfare economics", it is ultimately, like Adam Smith's famous chapter "On the Duties of the Sovereign", concerned with prescription. Provided we accept the authors' views of the good life, we learn to what extent and in what ways government is necessary to achieve it. But we learn nothing about the *actual* behaviour of governments.

From our point of view, the writings of Continental economists have perhaps been more interesting. This is due in large part to the influence of Adolph Wagner, whom we have already mentioned. Writing about the turn of the century, on the basis of a study of the behaviour of public expenditures in a number of countries, Wagner propounded his "Law of Ever-Increasing State Activity". This amounted to a forecast that the proportion of public expenditures to gross national product must be expected to rise over the foreseeable future. Thus Wagner did try to account for the observable facts, and Continental writers have in recent years been pointing out that his prophecies have been falsified by events only in so far as the secular growth of public spending has been faster than anything that Wagner himself envisaged.

Nevertheless, we cannot feel entirely content with his approach to the problem. For in the last analysis Wagner's prophecy that an increasing *share* of national income would come to pass through the hands of the governments of European and other countries (as distinct from his arguments for expecting public expenditures to rise absolutely), does not rest upon the interpretation of statistics; it rests upon Wagner's typically Germanic view that it was both inevitable and desirable for the State to expand its functions at a rate that would increase the share that it took of a country's output.

We cannot accept this. There are many other views of the nature and functions of the State, not demonstrably less satisfactory than those of Wagner, and indeed accepted in many countries by those with whom decisions about public expenditures finally rest.

While accepting Wagner's general approach to the problem, then, in so far as it begins from an examination of the actual expenditure behaviour of governments, we would reject the general conclusions that he himself reached. We also depart from his treatment for another reason. Wagner and his followers concentrated on an explanation of the secular growth of public spending. In our view, it is at least equally important, anyway in the case of the United Kingdom, to seek an explanation of the *time-pattern* of growth. Indeed, we shall try to show in subsequent sections that this time-pattern seems to offer an important clue to the explanation of expenditure growth and provides an aid to judgement about the possible future of government expenditure.

V

THE "DISPLACEMENT EFFECT"

The data given in Sections II and III bring out one particularly striking feature of expenditure growth. This is the "peak and ascending plateau" pattern of growth, most clearly to be seen in Chart 1. The expenditure "peaks" occur during periods of war—the South African, first and second world wars—and the plateaux in the inter-war periods. We have designated this upward shift, which produces a discontinuity in the growth-pattern, the "displacement effect".

This "displacement effect" remains discernible even when the influence of price and population changes on expenditure growth have been eliminated. Hence the evidence suggests that we should seek an explanation of the *timing* of expenditure growth, if not of the over-all rate of growth, in the effects upon the community of war itself. The Classical economists, of course, explained the growth of public expenditures in precisely this way. They pointed to the continuing costs to which a government necessarily committed itself in time of war (such as obligations to pay interest on debt) as one of the major causes of the secular growth of the public sector. However, our statistics indicate that this is too simple a solution: the "displacement effect" is still clearly to be observed if we eliminate all expenditure for "war-related"

purposes (such as national debt interest payments, war damage payments, gratuities and war pensions).

Nor, in our view, does the behaviour of defence and peace-time military expenditures satisfactorily explain the displacement effect. Expenditures of this kind have special characteristics setting them off from public spending of other kinds. On the one hand, they are more directly affected than other kinds of expenditure by conditions external to the country under consideration; there is a clear sense in which the volume of defence spending is likely to be influenced by international political conditions. On the other hand, such spending, like other public spending, does involve a sacrifice of resources in other (public or private) uses. Peace-time decisions about it are thus likely to be affected by considerations, such as the resulting tax burden, of a kind that are important for the behaviour of public expenditures in general, as we shall argue in the next section. (It is a corollary to this second proposition that there can be no certainty at any time that a reduction in a country's defence spending will result in a fall in total expenditures, rather than in an increase in spending of other kinds.)

Chart 1 shows that, if defence expenditures as well as expenditures for directly war-related purposes are eliminated, the residual expenditures still show some, though a much less marked, displacement in time of war. Further, this residual still takes an increasing share of national income over the period as a whole, and the changes in this share are roughly associated with times of war. Since it is likely, in the light of the above argument, that in eliminating all defence expenditures we are eliminating far more than is proper in order to show up the direct effects of war on public spending, we would conclude that defence expenditures alone cannot complete the explanation of displacement. We must look elsewhere.

Our material suggests that we should look at the social services, and it is in fact in the behaviour of spending on these services that we find further enlightenment as to the character of the displacement effect. The wars in which Britain has been engaged since the turn of the century have come more and more to affect all sections of the community, both in respect of the demands of military service and through the removal of the "front line" from an overseas battlefield to town and factory. The conduct of a modern war requires a thorough catalogue of human and material resources and in the process reveals much about social conditions. It has taken the catastrophe

of wars to bring home to those in power, for example, that economic progress does not automatically disseminate the benefits of education and health.

Professor Titmuss has pointed out that it was after the Battle of Waterloo, in 1815, that the Brougham committee was set up to consider "the education of the lower orders", and it was the Boer War which brought home, through the medical reports on servicemen, the physical condition of the civilian population. It is well known that investigators like Booth, the Webbs, and later Seebohm Rowntree had quite independently confirmed these conditions, but it took the social disturbance of the major wars to stimulate public opinion and obtain official agreement to the extension of social policies. The years after the first world war saw the introduction of a much wider scope of unemployment benefit and health insurance, and also the development of subsidized housing schemes and the extension of elementary education. It is interesting to observe that after this war governments were much more willing than formerly to commit their successors by the introduction of social benefits which were payable as of right but were to a considerable degree a charge on the Exchequer, and of housing subsidies of a kind which, even if the service were to be discontinued at any time, could still be liquidated only over a long period of years.

When we reach the second world war, it is apparent that the social services have come to be regarded as an integral part of the war effort. The origin of the National Health Service, for example, is to be found in the aftermath of the bombing of London, which brought about the development of emergency State health measures on a large scale. Similarly, the war-time plans for post-war social policy, and especially the famous Beveridge Plan, have to be regarded as a real part of the war effort.[2] Also, our own statistical analysis suggests that in the second world war the emphasis and interest had shifted away from the simple amelioration of poverty towards the provision of specific services in kind, which have become an important part of the Welfare State. (This shift is reflected in the behaviour of the indexes of transfers and goods and services in Chart 2.)

It is interesting to note in passing that the growing importance of central relative to local government is also

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[2] On this point see W. K. Hancock and M. Gowing, *The British War Economy*, Chapter XIX.

associated with war-time developments.[3] The war-time sense of national unity, and the encouragement this gives to conceptions of uniformity and equality of treatment on a national scale, must make for centralization of control and operation in such fields as social service provision. At the same time, the exigencies of war themselves facilitate the extension of the central administration and the curtailment of local autonomy and initiative.

VI

"REVENUE DETERMINES POLICY"

It is one thing to argue that social disturbances such as wars encourage increased government expenditure by focusing attention on social problems which might not otherwise be faced or brought to light. Certainly, before major shifts can take place either in the amount or pattern of spending, the *desire* to spend must be there. It is another thing to explain how it comes about that governments can induce their citizens to accept ever-increasing demands on their purses just at that time—i.e. at the return of peace—when they might expect a "return to normalcy". This brings us to the core of our argument as to the nature of displacement.

In "settled" times, citizens develop notions about the "tolerable" or "reasonable" burden of taxation. Such notions are customary in nature but they provide, at any given time, the effective upper limit to the rate of growth of public spending. It is an important characteristic of choices made through the political system that they enable the individual citizen to hold incompatible views for long periods as to this "tolerable" burden of taxation, on the one hand, and as to the "desirable" level of public expenditures, on the other hand; for political choices, unlike choices made through markets, enable the act of sacrifice (payment) to be separated from the consequent benefit (consumption). Indeed, they make it difficult for the citizen ever to bring the two into precise relation in a way that enables him to assess the effect of particular policies upon him

[3] The same phenomenon has been commented on by Colm and Helzner in their study of the growth in government expenditure in the U.S. (See their contribution to the Proceedings of the 1960 Conference of the *Institut International de Finances Publiques* and particularly pp. 60–61.) They remark: "In the United States the traditional resistance to central government control has weakened only in time of war or serious depression. Thus, government functions do not always respond gradually to the needs of an industrial and urban (suburban) society. An increase in government activity or responsibility often depends upon events happening which dramatize the need for such measures and help to overcome traditional resistance".

personally. Given also the indirect and indivisible character of many of the benefits provided for the citizen by his government, it is ultimately the burden of taxation, rather than notions about "desirable" expenditure, that must be expected to influence social and political attitudes, and to govern the possible rate of growth of public spending.

When societies are not being subjected to unusually violent pressures or disturbances, peoples' ideas about "tolerable" burdens of taxation tend also to be fairly stable. These ideas are translated into more specific ideas about reasonable *rates* of taxation and, provided that these rates are not appreciably altered, citizens will remain content. Constant rates of taxation are compatible with growing public expenditure if real output is growing, so that in the absence of pronounced disturbances which demand large changes—for example, in defence expenditure or expenditure on law and order—there may be a reasonably close connection between the growth of real output and the growth in public expenditure.

In times of crisis, by contrast, people accept tax burdens, and also methods of raising revenue, that would formerly have been thought intolerable, so that periods of crisis are often also periods of increasing tax burdens and of innovations in tax administration. When the disturbance is over, however, the new methods and the new possibilities of revenue-raising tend to remain. It is harder to get the saddle on the donkey than it is to keep it there. Consequently, expenditures become possible after a period of disturbance that the government may well have thought desirable before it, but which it would not then have dared to implement because of the difficulties of raising the necessary taxes. Thus, periods of disturbance are likely to be periods in which it becomes possible to close the "gap" between ideas about tax burdens and ideas about public spending, and to do so by an upward shift in the volume of both taxation and expenditures.

In effect, this thesis seems to fit the facts so far as the United Kingdom is concerned. Not only did two major wars condition a growing proportion of the working population to higher rates of direct and indirect taxation, but the exigencies of war themselves stimulated major innovations in the tax system. The outstanding examples are the improvements in the system of income tax administration in the first world war and the introduction of P.A.Y.E. and purchase tax during the second. Of the purchase tax, it was written by Treasury advisers

at the time of the 1945 budget that "it is a delicate instrument, which could probably never have been set in being except in time of war". Also, a notion of taxable capacity (or tolerable tax burden) does seem to have developed between the wars, though in relation to successively higher tax levels. Those who have tried to make a case for the existence of some absolute level of taxable capacity have been careful to adjust their estimates, with commendable hindsight, to fit the evolving facts of history.

VII

LESSONS FOR THE FUTURE

If our interpretation of British fiscal history is a plausible one, it carries certain implications for the likely freedom of action of the British government and Parliament in changing the share of national product that passes through the hands of government in the near future. Of course, our speculations in this regard assume the absence of marked social disturbances, whose effects might be similar to those of the recent past.

We have suggested that in stable times the possible rate of growth of the public sector will be governed by existing notions of what is a tolerable tax burden. It is interesting, both as a confirmation of our general thesis and as an indicator of future possibilities, to observe how quickly such a notion seems to have established itself after the second world war. Thus, although the share of the national product taken by government roughly doubled between 1938 and 1947, we find that the budget of the first post-war Conservative government made relatively little change in the total tax burden, and promises were made that important types of new spending (e.g. on the newer social services) would in no circumstances be reduced. Fundamental objection to these budgets was rare; there was wide acceptance of the general size of the tax bill (and hence of public spending), and disputation was concentrated upon whether the marginal changes that were made in the over-all tax structure were the most satisfactory ones.

This is not to say, of course, that everyone now regards his own tax burden as a fair one, but only that there is some measure of agreement that arguments about taxation should concern who is going to pay, rather than the general amounts that are to be raised. Nor do we suggest that these tax attitudes are incapable of change. In particular, continuance of the

existing tax structure with a rising national income must bring more and more people into higher income tax and surtax brackets, and this might encourage interest in the size of public spending. At the same time, in a shrinking world growing awareness of economic conditions in other countries might make citizens less content with the home situation if the comparable tax burden abroad were lower. But it is a moot point whether the first development would encourage objections to the over-all tax burden rather than interest in obtaining value for money and in revision of the tax structure, while the importance of the second question is diminished to the extent that the trend in other countries is towards a larger rather than a smaller public sector.

All things considered, then, there seems reason to expect that citizens would accept the continuance of a tax burden pre-empting something like the present share of national income. Despite recent criticism of the size of public expenditures, and despite the fact that the share of government has in fact declined somewhat in the last few years, it seems that the community now sees something like the present "share" taken by government, rather than that taken between the wars, as representing the "reasonable" one.

The importance of this from our present point of view is that it provides us with a rough upper limit to the possible rate of growth of public spending. If, as we have argued, people's notions about *burden* can be translated into notions about tax *rates* (at least in the absence of severe inflation), then existing attitudes are compatible with a rate of growth of public spending that would maintain, or somewhat increase, the present share of government in a rising national income. As a corollary, any future growth of national income would enable the government to maintain existing standards of public services, if it so desired, while reducing tax rates. It is much more likely, however, that expenditures on "expanding" types of public service will grow at least as fast as national income.

These "expanding" activities of government (primarily social service spending on such services as education, health and national insurance) are of a kind in which "acceptable" standards of provision are customary rather than absolute. Our ideas of minimum retirement and other benefits are closely related to standards of living of the community as a whole. As standards rise in the home, they are expected to rise in hospitals and schools and, with the end of conscription, in the armed forces as well. Such a rate of growth of "expanding"

services, associated with unchanged expenditures (in real terms) on other government activities, would still be compatible with a declining share of government (i.e. lower tax rates) given a rate of growth of national income of, say, 2 per cent. per annum. But the likelihood of such a decline depends partly upon the plausibility of the assumptions upon which the projection depends, and partly upon the efficiency with which government and Parliament are able to control the rate of growth of public spending, given the desire to do so.

In our view, the projection underestimates the likely rate of expenditure growth. In the first place, there are strong reasons for expecting the rate of growth of spending on "expanding" services to be faster than the growth of national income in the near future. There is an obvious reason for this in the fact that rising income facilitates the sacrifice necessary to provide such a rate of growth of social service spending, given the will; and a less obvious but quite important reason in the fact that the post-war increase in spending for such purposes has been on current rather than on capital account. It is now apparent that increased *capital* expenditures will be necessary even to maintain established standards, and a still greater increase if those standards are to be improved. Also, the expenditures which in the projection are assumed to remain constant include important items (such as defence spending) which on balance we would regard as more likely to rise than to fall in the foreseeable future.

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Such a faster rate of growth of spending would reduce the scope for tax reductions and thus increase the importance of the process of parliamentary control of public expenditures. This is a question of considerable interest,[4] and we can fittingly conclude by some examination of it. We shall find that the history and present character of parliamentary control reinforces the view just taken: that the dice are loaded against reduction in the share of government and that tax levels are not likely in the foreseeable future to fall below what is currently accepted as tolerable.

The present system of expenditure control was developed in the last century and the early years of this century, before there was general acceptance by the electorate and Parliament

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[4] Discussed in greater detail in the next article by Mrs. Hicks.

of the desirability of large-scale public spending. Within living memory it has been a respectable argument that a large budget must cause unemployment, public expenditures being unproductive except in the case of the provision of law and order and certain environmental services. From this it followed that it was the duty of the government to minimize its expenditure, and to concern itself with "the saving of candle ends". It is this that explains the continuing authority of the Chancellor of the Exchequer in the Cabinet and of the "Treasury view" in the administration. The existence, completeness and continuity of Treasury control over public expenditures rested essentially upon agreement about the character and purposes of public finance. Further, this interpretation of the rôle of government placed a check upon the rate of growth of public spending and upon the possible "displacement effect" of social disturbances, because it united taxpayer and government in the attempt to keep expenditures down. Parliament and Ministers might have plans that they wished to implement; they had little hope if the Chancellor refused to raise the necessary taxes.

This orthodoxy has disappeared over the last 70 years, and with it has gone the general parliamentary agreement about the functions of the Chancellor and his power in the Cabinet. It was replaced first of all by a more positive attitude to the value of public spending (the "social socialism" of the turn of the century) and by a willingness to consider larger tax burdens that could permit Lloyd George to promise the electorate that "no one need be afraid of any taxes being taken off in my time". More recently, the major Victorian premise has been stood on its head; it is a part of the Keynesian orthodoxy that large public expenditures may be a necessary part of full employment policy.

The disappearance of the earlier agreement about the rôle of taxes and expenditures in the economy, and particularly the growth of a positive attitude to public spending, must weaken the authority of the Chancellor in the Cabinet, and with it the defences against pressure from Parliament (as representatives of the citizens) for increased expenditures. There is no lack of evidence that this is what has happened. Thus, in 1919, Mr. Baldwin, Financial Secretary to the Treasury, could point out that a Minister appealing to the Cabinet against a decision of Mr. Gladstone would have met a hostile Cabinet, ". . . which in nine cases out of ten would back the Treasury. The whole outlook today is changed . . .

and all large items are controlled, not by the Treasury, but by the policy of the Government, and if the Chancellor raises objection, and the Minister takes the matter to the Cabinet, the natural bias will not be against the expenditure but in favour. . . ." More recently, we have had the example of the resignation of Mr. Thorneycroft: whatever the detailed reasons for this, it is sufficiently clear that they reflect a decline in the authority of the Chancellor in matters of expenditure control.

Inevitably, there has been a parallel decline in the efficiency of administrative control of expenditure. Such control continues to be important in its traditional context of "the saving of candle ends", though even here the task is being made more difficult by the fact that the candle ends have become 100-watt bulbs of uncertain cost. Indeed, an important reason for the current interest in expenditure control and for the appointment of the Plowden Committee stems from recognition that neither the Treasury nor the parliamentary Committees concerned with expenditure control are very effective as at present organized. But although this is an important issue, it is not the central one. This is that there can no longer be an accepted "Treasury view", whose authority must be recognized by other Departments as determining the "right" volume of expenditure. Treasury control in this wider sense has declined alongside the decline in the authority of the Chancellor, and for the same reason: there is no longer any agreement about how many 100-watt bulbs there should be.

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If the Plowden Committee can make proposals that improve our efficiency in "the saving of candle ends", they will have served us well. But if, in the current institutional and intellectual climate of Britain, they can solve the wider problems of expenditure control posed in this article, they will have worked a miracle. One possibility would seem to lie in the direction of a distribution more widely among other members of the Cabinet of the powers and responsibilities now notionally reserved to the Chancellor. But it is not easy to see either how this could be done, or how it could solve the problem satisfactorily, failing a much wider agreement about aims than at present exists.

Alan T. Peacock

March, 1961. Jack Wiseman

The Control of Public Expenditure

By Ursula K. Hicks

I

JUST about a century has elapsed since the establishment of the Gladstonian system for the integration and control of the expenditure of the central government. In the intervening years (it goes without saying) the range of government expenditure and its importance in the national income have expanded so greatly as virtually to constitute a revolution. Over the last 12 years or so a growing number of economists and administrators have been urging that fairly fundamental changes would be required to bring the Gladstonian system into line with modern social and economic needs, and that no time should be lost in reviewing the whole situation.

Sir Stafford Cripps was the first Chancellor to take seriously the insufficiency of the traditional system for fiscal policy. In his budget speech of 1948 Cripps issued an invitation to economists at large to suggest some way in which the budget accounts could be geared to show the true budget surplus, a knowledge of which, as a good Keynesian, he knew to be essential for planning the control of inflationary pressure. The best that Cripps could achieve at that time was the "Alternative Classification" in the Financial Statement. This was no more than a rehashing of already completed accounts. The point of it was, however, that it did attempt to segregate non-recurrent revenue and expenditure "below the line" under a heading "capital, etc., items". The very name of this little mouse of budgetary reform reveals its weakness. But the attempt was none the less important: first, because it was something new in the control of expenditure, a radical

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departure from the ways of chronic economizers who in all ages demand tighter control because they want less public expenditure of any kind; secondly, because it set economists thinking about the new problems with which budgetary technique was having to deal.

Sir Stafford Cripps' attempt at budgetary reform did not stand alone. Contemporaneously, statisticians and economists in the Central Statistical Office and the Economic Section of the Cabinet Secretariat were steadily improving the national income social accounts. These had made their first public appearance with the budget of 1941, when, under Keynesian influence, an attempt was made to set the incomings and outgoings of the central government against a background of the accounts of the nation. Further, the (Crick) Committee on *The Form of Government Accounts* was exploring the adequacy of the already much criticized "penny cash book" system of recording government expenditure. The way in which post-war services were going to develop was, however, as yet hardly discernible in 1948. Consequently, the need for change seemed much less pressing than it later became. Moreover, any far-reaching suggestions immediately came up against the reluctance of the Treasury and the Public Accounts Committee to agree to any change that might weaken item by item "accountability" control through the Estimates and their mirror images the Appropriation Accounts. The highest flight of the reforms secured at this time might be likened to the promotion of the accounts of the government from a system appropriate to a household to one appropriate to a small trader.

The decade which has elapsed since these exercises took place has witnessed the establishment of the national health service and a great increase in pensions. It has also seen the adoption of long-term programmes entailing much capital investment, both in the defence and in the social services—in addition, of course, to the needs of the nationalized industries. As a result of these changes the cracks in the Estimates-Appropriations Accounts mirror have become so wide and numerous as seriously to impair the view, not only of the general public, but even of those (such as the members of the Public Accounts Committee) whose business it is to get a clear reflection of the situation. The appointment in 1958 of a Committee[1] to advise the Chancellor on expenditure

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[1] Membership of this Committee has not been published, but it is known to be chaired by Lord Plowden. Its appointment was announced in the Treasury reply to the Report of the Select Committee on Estimates on Treasury Control of July 23rd, 1958.

control shows that the urgency of the need for devising new machinery for meeting the new situation has won official recognition.

II

Before discussing possible lines of reform it will be convenient to recall very briefly the salient features of the traditional system of expenditure control. It has served the nation well, while its key aspects have been adopted with success in many parts of the Commonwealth, from Canada and India to Kenya and Nigeria. However urgent the need for reform in some directions, there are many traditional features that it would be wise to retain under any system.

Reference has already been made to two basic parts of the apparatus: (i) a single comprehensive annual budget of the revenue and expenditure for which the central government is responsible, and (ii) a simple cash account on a subjective basis with definitive appropriation of each item vote, head and sub-head, including the strictest control of any transfer of moneys voted for one purpose to another (*virement*). (A classical illustration of the implications of this accounting method was the traditional Head in the Army Estimates of "Hay for horses", wherever in the world they might happen to require it.) These two principles together delineated the mirror and screwed on to the system what a Treasury officer once described to me as the "curse of annuality".

A third important feature of the system is the preparation of the Estimates in the Departments, but subject to check, and if necessary pruning, in the appropriate section of the Treasury. All papers to Cabinet Committees which propose expenditure must give the Treasury 48 hours notice, in case it should wish to comment. In the case of established services there is little that the Treasury can do, unless perchance it can approach them through prior approval for a new but allied service. By its nature the system makes elaborate provision for accuracy, but none for efficiency, while prior approval itself is given piecemeal as requested by Ministers concerned, subject to the agreement of the Cabinet. Estimates scrutiny by the Treasury has now very largely become an exercise, not for determining what should be done next year, but for estimating how much cash will be required to finance what has already been agreed upon.

A fourth feature of the system is that the Estimates are presented to Parliament Department by Department, as they pass their various hurdles. Expenditure plans are thus made

public *seriatim* in the early months of the calendar year, but no indication of revenue plans is available until Budget day in April, when the Financial Statement is presented to the House. This curious and traditional document[2] is mainly concerned with revenue, but on the last page displays a sort of balance sheet of total revenue and expenditure forecasts, arranged on a crude functional breakdown. (In fact this breakdown is a by-product of the Departmental arrangement of the Estimates.) The two sides of the account are debated separately (and in both cases somewhat ineffectively for control) by Committees of the whole House.

A fifth and most important principle is concerned with accountability control. In every Department the course of outlay is the personal responsibility of the Accounting Officer (the Head of Department). It is also currently checked by officers of the Department of Exchequer and Audit working in the spending Departments. This check is followed by *post* audit in the Exchequer and Audit Department, and the Report thereon by the Comptroller and Auditor General. His report is not only important in itself but is the basis of the agenda for the subsequent investigations of the Public Accounts Committee (a Select Committee of the House having 15 members). For the simple nineteenth century types of government expenditure this procedure must have given almost 100 per cent. accountability control. Even in present circumstances it is effective for this purpose over a not insubstantial range of expenditure, and the main processes would no doubt need to continue in any circumstances. The trouble is that, with the new types of public expenditure which have arisen, the checks it exercises are not really the right checks or, if they are, they are insufficient.

III

With the introduction of new types of government expenditure, as has been said, the old framework of expenditure control has been fractured in a number of places. Some adjustments have inevitably been made to take account of the new situation (mainly since the end of the second war), and some of these are definitely forward-looking. In the first place, as compared with pre-war practice, *virement* has been somewhat loosened up, by running sub-heads together, and thus permitted greater flexibility. Sometimes also Departmental Estimates have included a "general grant" which is not

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[2] The Financial Secretary's Memorandum to the Civil Estimates presented at the same time gives further information on expenditure.

"appropriated" item by item but merely "authorized" as a whole. Secondly, the impact of social accounting on Departmental estimating has accustomed Departments to think in terms of economic categories: distinguishing (in short) between expenditure on goods and services and on "transfers", and between income (current) and capital (investment) expenditure. Thus the public accounts can now be fitted more accurately and precisely into the accounts of the nation than was possible in the early days of social accounting.

A third very notable improvement has been the final and successful establishment of the Select Committee on the Estimates,[3] as a companion piece to the P.A.C. Strictly speaking, this Committee examines expenditure as it is taking place, rather than estimates; but even so its investigations have a much smaller lag than those of the P.A.C. Further, the method of procedure which the Estimates Committee has worked out for itself[4] (through sub-committees reporting to a steering Committee which then circulates the reports for Departmental comment), enables it to cover a number of subjects in a short time and to function with considerable flexibility.

The Estimates Committee is handicapped by the form of accounting used and also by insufficiency of staff, especially research staff, although the position has recently somewhat improved. It is likely to play an increasingly important rôle when these handicaps have been removed. The intention of the government to extend its use has been shown by the announcement (in the autumn of 1960) that in future it would be asked to review the "spring supplementaries".

Fourthly, the breakdown of the mirror system is leading to definite, and indeed inevitable, attempts to evolve alternative methods of control in those services where it is virtually impossible to apply cash accounting in the traditional form. One of the most striking features of public expenditure in the post-war world has been the enormous expansion of "grants to persons": pensions, social insurance and so on, as well as the closely related payments under the national health service. While there is a fairly strong upward trend,

[3] Select Committees on the Estimates had been appointed for the sessions 1912–14 and 1921–39. It is generally agreed that these early Estimates Committees were ineffective, probably because they attempted to make their report in the short space of time between the finalizing of the Estimates in the Treasury and the debates of the Committee of Supply.

[4] This method was taken over from the Select Committee on *Expenditure Arising out of the* (second) *War* and seems to have been the invention of Lord Samuel. Cf. B. Chubb, *The Control of Public Expenditure*.

these outlays are by their nature largely unpredictable at the beginning of the year, and in fact usually fluctuate in a way that cannot be foreseen with any accuracy. For instance, the effect of a sudden cold snap is an immediate expansion of supplementary grants of coal for old age pensioners. This is followed by increasing costs to the health service, until a rise in the death-rate of the elderly brings things back to normal.

In practice, services of this nature have to be controlled by formula[5]. The implication of this is that, once a formula has been sanctioned, a commitment has been undertaken which overrides cash control. In the case of statutory formulae the check of the Comptroller and Auditor General is very strict indeed; but this in itself implies that the out-turn may be substantially different from the estimate. Apart from the natural expansion of the services, in times of rising prices even the strictest adherence to the formula will lead to higher outlay. In fact, this is the main content of the "spring supplementaries". Formula control is thus now fairly extensively used; the main trouble about it is that more thought needs to be given to what constitutes a good formula.

A number of Departments are experimenting with forward planning. There is also discernible an increasing awareness of economic factors and an interest in estimates of return over cost (for instance, in the Post Office, whose long-term planning is probably its strongest suit). The Department of Scientific and Industrial Research has a five-year plan, and the defence budget includes long-term forecasts; the Ministry of Works is also experimenting with planning. So far, the most convincing long-term plan to be adopted by any Department is that of the Ministry of Education. This covers not only the school building programme, carefully costed and standardized, but also forecasts of current needs projected into the future. Active capital investment up to 1970 at the very least is envisaged[6]. Thus quite a lot of useful work is going on, but it is not well co-ordinated and there appears to be no central guiding hand. A parallel might perhaps be drawn between the present

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[5] Broadly speaking there are two types of formulae: (1) Those prescribed by statute laying down legal entitlement and scale rates. Examples of these are national assistance, housing subsidies and family allowances. The main variable is the number of cases qualifying; alteration of scale rates requires a policy decision. (2) Internal control systems: in such cases as where the Act contains a phrase such as "the Minister may, with the consent of the Treasury, pay grants towards . . .". These grants form part of the confidential relationship between the Treasury and the Departments, and no particulars are available.

[6] On all this, see the Report of the Estimates Committee and the Treasury reply thereto, *cit.*; also the Crowther Report in respect of the planning of education.

gropings after long-term planning and more modern methods of control, and the situation in respect of cash accounting in the 1840s and '50s on the eve of the introduction of the Gladstonian system.

IV

Looking at the salient features of the Gladstonian system, even as modified by recent (mainly peripheral) changes, let us try to set out the basic objectives which a reformed system should try to attain. A first necessity would seem to be to give Departments real responsibility for efficiency in the conduct of the services entrusted to them. This need is most obvious in the case of Departments which have development programmes on hand; but there is room for efficiency incentives in many other directions, even in such routine services as tax assessment and collection. Under the present system, even loosened up as it has been from pure cash accounting, it is difficult to introduce either efficiency incentives or efficiency checks.

Secondly, it is quite essential to put an end to the piecemeal engagement in commitments without consideration of the total implied. (And this total must be interpreted as including indirect and consequential commitments—for example, nurses and ward maids for hospitals—as well as the relation with the development plans of other Departments.) At present the Treasury confers a broad blessing (subject, of course, to Cabinet sanction) under prior approval to a single Departmental project. The annual "phasing" is then determined (at the Ministerial level on Treasury advice) mainly with an eye on the general economic situation, in which the state of the balance of payments bulks very large. This procedure is intended to make sense from the "compensatory fiscal policy" point of view; but from the point of view of efficient programming it is wholly inadequate. Under the present system, not only is there very little systematic initial costing (except in so far as it may be undertaken by an individual Department on its own initiative) but, in some ways more serious, there is no costing of the additional outlay that will be required if alterations are made, either in content or phasing, after implementation has started. Too often the Treasury is told how much a thing is likely to cost, but not the basis of the estimate.

Thirdly, there is the old, old point that under present practice the Committee of Supply is utterly inadequate, not

merely to exercise any sort of control over expenditure, but even to form judgements on relative merits of particular types of outlay or of the adequacy of the government programme as a whole. The sight of Members trailing in and out of the division lobbies on the last few Supply Days, voting on Estimates that have never been discussed, and which they have probably not even read, is not only stupid but demoralizing. Some definite limit to Supply debate is, of course, essential if the budget is to get passed on time, and no one would now want to go back to the kind of chaos once provoked by the Irish Members. Prompt dispatch of business is not, however, necessarily incompatible with the opportunity to make informed judgements.

In this respect it is not sufficient excuse to point out that the Supply debates afford a most convenient opportunity for the opposition to draw attention to the government's shortcomings. However necessary such an opportunity may be, there is no inherent reason why it should be tied up with a pretended control of expenditure. Under a reformed system it would seem to be a very high priority to provide more adequate opportunities for the Committee of Supply to discuss real issues, even if this had to be divorced entirely from the Supply debates. So long as the Estimates are presented according to the traditional arrangement, on a purely cash basis, and are all cut and dried before they reach the House, it is difficult to see how the Committee of Supply can do much better than it does at present.

V

We must now turn to consider feasible lines of approach to attain these major objectives. Naturally, it is possible to discuss them only in very general terms. Broadly, the solution would seem to lie along the route of what may be described as the relative cost-benefit approach. At the lower level, at least, there should be a possibility of quantifying the differences between cost and benefit, ideally both in money and in efficiency terms.

With modern statistical techniques the cost-benefit approach is capable of application over a wide range and for a number of purposes. It could serve, for instance, as a means of choosing between alternative plans (say different motorways) within a single service, provided that due attention is paid to complementarities and other side effects on different parts of the service (in this case trunk and secondary roads). Cost-

benefit could also be used as a basis for inter-service decisions (more schools or more hospitals, or more taxes and so more of both), in the sense that a scrutiny of relative costing would promote informed judgement. Finally, in the broadest sense of all, it might be used to evaluate the advisability of more or less public expenditure versus private expenditure, either on current or capital account. In this sense the balance would perhaps be most fruitfully expressed in terms of the benefits of the proposed public expenditure set against the costs of the taxes, or loans, which would finance it.

In terms of actual reforms, perhaps the most far-reaching improvement would be the introduction of a comprehensive "long-term" budget, forecasting for each service the intended development over the immediate foreseeable future. The long-term budget could most conveniently be introduced in the autumn, soon after the beginning of the Session, the Departments' plans having been put together in the summer. (The White Paper on Public Investment issued in November, 1960, should rank as a first step along this road.) The long-term budget would, as a minimum, need to have a three-year reference; but in many ways five years would be better (as being more likely to fit the construction period of projects), as soon as forecasting could cope with the longer period. Many projects would naturally take even longer than five years to complete. If fairly precise estimating over the whole period were not feasible it would be necessary to fall back on a broader sketch for the more distant future.

Such an autumn budget would immediately make the whole budgetary process look more sensible and convincing. It should be arranged on a detailed and precise functional breakdown. Where it proved administratively convenient to share a service between two or more Departments, a uniform system of numbering in the Estimates of each of the Departments concerned would enable the different parts of the service to be readily identified in the Annual Estimates, so that these would tie up with the long-term budget. Thus, the implications of the plans for a complete service could readily be seen. It would facilitate comparison, both inter-service and over time, if the long-term budget were expressed in terms of constant prices. Since the estimates in the long-term budget would be for the purpose of broad comparisons, they would not have the finality of the Estimates in the annual budget; the House would still be in a position to speak its mind on them and so to take a constructive part in framing the Estimates.

It would be essential to allow ample opportunity for the discussion of the long-term budget. Thus, when the annual budget came to be introduced, the House would already have a good understanding of what was implied. With this end in view it would be useful to postpone the authorization (there would be no question of appropriation) of the long-term budget until after the Christmas recess, when it could perhaps be allotted about four days for further debate. The general picture would then be fresh in the minds of Members when the annual Estimates came along.

This procedure would enable a considerable simplification to be effected in the work of the Committee of Supply. The annual Estimates would still represent the planned outlay for the year and, in respect of those services which continued on the traditional basis, would no doubt need to be in the accustomed form. It would seem unnecessary, however, to trouble the Committee any longer with the enormous volumes with which it at present has to struggle. It should be sufficient to append to the annual Estimates a broad prose statement (referring back to the long-term budget), accompanied by a few tables[7] in terms of current prices, displaying the planned phasing of known programmes for the year.

Into this framework could be fitted the accounts of those services for which alternative, more modern, systems of expenditure control could appropriately be used without the necessity for detailed reconciliation. Thus the long-term budget would aim to give Parliament a "normal" breakdown between services and programmes, a framework on which it could make informed judgements. The annual budget detailing the proposals for the next 12 months would, by contrast, have to take account of the needs of "compensatory finance" and of general economic conditions, including the balance of payments. Besides making the debates in Committee of Supply more meaningful (and probably more lively), the existence of the long-term budget would have the inestimable advantage of forcing plans to be made for a complete programme, in place of the present piecemeal assumption of commitments. A by-product of this would be that the cost of variations would quickly become apparent.

Both because it is desirable to get a view of the total outlay of the public sector some time during the Session, and because many of the programmes are in fact joint exercises,

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[7] The tables could conveniently be broken down into appropriated and non-appropriated expenditure. The traditional detailed breakdown need continue only for the former.

it would be desirable to include in the long-term budget as much information as possible concerning local authority plans and programmes. At present, local authorities are hardly in a position to forecast so far ahead; but this is very largely because they have not been able to proceed very far without knowing how much would be likely to fall on the rates. The new General Grant is already doing something to improve this situation, since it is forward-looking (in contrast to the rate deficiency grant and the specific grants). To get the best advantage from the General Grant, local authorities will find that they are compelled to plan ahead. It should be possible to ensure that in this quarter also there is less lighthearted variation, since the rates would be the direct sufferers.

VI

We must now turn to consider in more detail possible methods of control for those services which would no longer use the simple cash account. Broadly we can envisage three alternatives to the present method of cash control: (i) Formula control, as at present *de facto* in use for much of the central government social expenditure. (ii) Modified commercial accounting for those Departments which are of a semi-trading nature, because they are responsible for fixed equipment and other commercial transactions. (True trading services—in which it appears we shall now be able to include the Post Office—should present no problem, since the ordinary accounting methods evolved by private enterprise fit their activities quite appropriately.) (iii) Efficiency control, or what the Americans call "performance budgeting", where results are checked against calculated "activity" norms.[8]

What, we must next ask, would be the scope for the employment of these various alternatives? For the core of the purely administrative services in the central Departments there seems to be no better alternative to the traditional cash account, particularly in respect of the higher posts where it is inherently impossible either to measure efficiency quantitatively or to give efficiency incentives. There should still be room in such Departments to improve performance by more intensive use of O and M methods. Some of the clerical work, however, might be broken down into "activities" which would permit the application of efficiency control methods (see below).

[8] cf. R. MacKeen, *Efficiency in Government through Systems Analysis* and below p. 34. The method seems to be very similar to that advocated by the Committee on Hospital Costing, now being used in over 300 of the National Health Service hospitals.

In respect of the inescapably open-ended social services of the central government, such as public assistance, supplementary pensions and health service payments (as distinct from hospitals), procedure by formula seems inevitable. It would be better to acknowledge this openly and to try to improve the formulae by means of surveys and similar statistical techniques. At present it seems that the Estimates often have a rather shaky base. The position varies considerably from service to service. The Government Actuary, it is understood, has given substantial help in respect of some services. In respect of others, such as the agricultural subsidies, little has been attempted. This is no doubt partly due to involvement with price review policy. It is safe to say that all formulae would be improved by open scrutiny of the methods used.

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There is not much doubt that modified commercial accounting could with advantage be much more used. The most obvious candidates for this treatment would seem to be the roads, on the one hand, and the various activities of the Ministry of Works on the other. It has long been recognized that we need a comprehensive replanning of the road system. By no other means can the ever-increasing volume of traffic be kept moving. It is essential that the plan should be an integrated programme: the building of a motorway will initially empty the alternative routes, but as the motorway in turn becomes congested there may be at least a partial return to the old routes. On the other hand, a new motorway tends to make the existing alternative roads unnecessarily grandiose and in other ways unsuitable for the traffic they will bear in the new situation.

A body of statistical data on road usage is now being built up by such organizations as the Road Research Laboratory. It is now possible to quantify such things as the effect on speed (and hence cost) of congestion, parked vehicles, frequency of pedestrian crossings (and pedestrians crossing promiscuously) and traffic lights, for different places and for different times of day and week. But more than this is needed to answer the vital question of what type of improvement in any given case will provide the maximum return over cost: whether a 65 m.p.h. motorway, a 45 m.p.h. road or a mere opening out of bottle-necks. Consequently it may be as well, while retaining commercial accounting as the

long-term objective for roads, to work up through an apprenticeship of efficiency calculation, which at present is sadly lacking.

A useful approach to the activities of the Ministry of Works would be to constitute an integrated service for all central government construction, other than roads and perhaps defence programmes.[9] It would include, besides schools and hospitals, offices and their furniture, the Royal parks and ancient buildings, prisons and court houses. A closer approximation to commercial habits of thought could be achieved if some actual money income were coming in, and for some of the services this would happen quite naturally. It would follow that Departments and other "tenants", such as local education committees, should be debited with rent for the premises occupied and hire for the equipment used; but this would imply a definite undertaking by the Ministry of Works to keep them up to a defined standard, according to appropriate depreciation rules laid down in advance. These could be considerably more flexible than the present routine programme of repairs and redecoration. It might well lead to more attractive working conditions and to better care of property on the part of tenants. There is no technical difficulty in prescribing realistic depreciation periods for different types of building and equipment. Such a policy has been successfully followed in Sweden for many years.

The different sub-services within Works would naturally have their individual programmes, to be dovetailed into the master plan. This leads us to the final alternative method of expenditure control: programming, performance or efficiency budgeting. This method is based on what is called Systems Analysis, a statistical device for the simultaneous measurement of the components of cost. (The road congestion analysis mentioned above is a simple illustration of the type of thing required.) Systems analysis is suitable wherever services can be broken down into "activities" and quantitative performance indicators devised. Thus it can be applied to purely administrative services at the clerical level, for such activities as processing tax returns or pensions qualifications. Systems analysis would, however, have a wider scope in programmes in which durable assets as well as current services are concerned. In respect of such services it would be very desirable to include a breakdown between current and capital

[9] It is, of course, not implied that the Ministry of Works would itself carry out the whole programme, the greater part of which would no doubt continue to be let out on contract.

account transactions. This is convenient in the first place in order to assure a proper allocation of resources, both in the current year and over the planning period. Secondly, it is essential to facilitate integration in the accounts of the nation, and so to assure a satisfactory allocation of resources throughout the economy.

Such a current/capital account breakdown need not, however, necessarily be operational. Indeed, in countries which habitually use current and capital budgetary accounts, ill-informed and blind applications of the distinction have sometimes done more harm than good. The basis of systems analysis is input-output analysis, which works in terms of real flows of factors and products, maturing at different times, dissolving the current-capital distinction into a much more subtle relation. Although a beginning has been made with input-output analysis in this country it is capable of much wider application in the public sector.

We must finally consider what types of government outlay might be suitable to transfer to performance budget type control. With modern equipment and the rapid rate of technical progress, planning for defence on a fairly long-term basis is already a necessity. In fact the defence budget is an elaborate affair and some application of systems analysis is already made in particular sectors. Not even the Treasury, however, can be aware of the plan as a whole; and so long as the "hay for horses" type of estimate persists there is little that can be done to increase efficiency, in spite of frequent opportunities for exerting some pressure through prior approval. The existence of these opportunities, indeed, suggests that piecemeal assumption of commitments may be especially dangerous in respect of defence planning. The Americans are at present engaged in overhauling the entire organization of their defence planning. It would not be surprising if a similar process would pay dividends here.

In the field of the social services, the Ministry of Education (as we have seen) already has an efficient long-term plan, carefully costed. The difficulty of applying performance budgeting here is that so much of the implementation falls on the local authorities. On the other hand, it would be wrong to force their activities into a mould dictated by the centre; every bit of autonomy remaining to them is precious and must be carefully guarded. The best hope—and it is quite well-founded—is that the need for forward planning in order to derive full advantage from the General Grant can stimulate the use of better techniques in local programming, so that a

fully comprehensive long-term education budget can be implemented.

A more difficult bundle of plans to handle exists on the health side. Although the major provision for health services is a central responsibility, local authorities already administer a number of services. There is the further possibility that the health centres envisaged by the 1948 Act may actually come into being in the not too distant future. It is clear that the local health services urgently need to be co-ordinated with the plans of the regional hospital boards, where, fortunately, there are at last signs of a longer-term planning policy. What would appear to be needed is two separate but closely co-ordinated health plans, one for the central services and the other for the local responsibilities. This should not be beyond the bounds of possibility. Moreover, many of the services are of the type to which systems analysis can very appropriately be applied.

Two further and perhaps less obvious candidates for including in the efficiency control system would be the "police and justice" services and agriculture-land use in the widest sense. It would take us too far afield to consider these at length. The police and justice complex of services—essential police services, such as the maintenance of order and the apprehension of malefactors, traffic control, including the non-criminal offences of motorists, the courts and prisons, and finally the after-care of prisoners—are closely related and often overlapping. It would obviously be desirable to have these co-ordinated, and development planned in a comprehensive manner. As regards agriculture and land use, it is surely desirable in our small and crowded islands to have an integrated plan for the encouragement of agriculture in the widest sense, including animal husbandry, forestry and fisheries. A plan for agriculture, however, would not be complete unless it were integrated with the plans of those responsible for other forms of land use, in particular the Distribution of Industry Division of the Board of Trade.

VII

Enough has been said to show that the scope for transferring services as a whole from cash to performance budget control would be quite considerable. Other adjustments would have to follow, for instance in the Department of Exchequer and Audit. A wider use of commercial-type control might necessitate an increase in the number of officers trained in

normal business accounting; there would also need to be a substantial recruitment of cost accountants. For checking performance a new kind of expertise would be required in the Department of Exchequer and Audit. Judging by the experience of governments which have already made some progress along that route (and it must be admitted that Britain has fallen behind the pioneers), what is required is a type of works inspector who, being briefed with the provision of service and performance data laid down, would be able to check that they were actually being provided, and that the funds granted had not been put to other uses.

The financial Select Committees would also no doubt need to reorient themselves to some extent. The P.A.C. might find its work more complicated, and the field for its traditional methods more restricted, so that it would need to be able to call on additional expert advice. But, as a long stop on accuracy and honesty, its work would be as indispensable as ever. On the other hand, the methods and aims of the Estimates Committee would come into their own under the new methods of accounting. The scope and importance of its checks would grow in volume and effectiveness; but it also would need to be able to call on much more expert advice—economic, statistical and technical—than is at present available to it.

The various suggestions made in this paper may seem revolutionary, but since the revolution in government expenditure has already taken place, these extensions in the methods of accounting and control should properly be considered as merely inescapable adjustments to the revolution. Just because of its many excellent qualities, we have perhaps been content with the Gladstonian system for a little too long. Its excellence must not now be allowed to stand in the way of a rethinking which assuredly has to be faced sooner or later.

Oxford,
February, 1961. Ursula K. Hicks

World Trade in Invisibles

By Ely Devons

NEARLY all analyses of trends and changes in world trade are confined to world trade in merchandise (visible trade); information and comment on world non-merchandise trade (invisible trade), such as transport, tourism, investment, banking, insurance, etc., is remarkable by its absence. The articles now published regularly each quarter in the *Board of Trade Journal* are concerned with the United Kingdom's share of world trade in manufactures, and most of the regular reports of international organizations (such as the World Economic Survey by the United Nations, the annual reports of G.A.T.T. on international trade, and the surveys published by the Organization for European Economic Co-operation and the Economic Commission for Europe) confine their analysis and comment to trade in merchandise. It is true that when the economic position of a particular country or group of countries is examined, prime attention is often paid to the balance of payments; and the balance of payments includes, of course, non-merchandise as well as merchandise trade. Indeed, one could argue that today economists, both academic and journalistic, have an almost pathological and neurotic obsession with the state, actual or potential, of the balance of payments of the countries whose economic position is under their gaze. But they rarely, if ever, analyse the constituent items of the invisible account as part of the structure of world trade, as is now done so frequently for merchandise trade.

* * *

The reason for this contrast is simple and understandable. Most countries of the world have had for some time regular detailed statistics of their merchandise trade with the rest of the world, and it has been possible for economists and statisticians, by adding these up by countries and groups of commodities, to build up an increasingly detailed, reliable and instructive picture of world merchandise trade. This has been made much easier in recent years by the adoption of the

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United Nations *Standard International Trade Classification* (SITC) by the important trading nations of the world.

Information on non-merchandise trade is strikingly different. The facts available for individual countries are usually found in the invisible items included in the current account of statistics of the balance of payments. Official estimates of the balance of payments are a very recent development. In the United Kingdom, for example, official estimates of the balance of payments go back only to 1923, and for the inter-war years the estimates were very rough indeed. It is only since 1946 that the statistics have been gradually extended and improved, but, even now, they are much less detailed and frequent than those for merchandise trade. Non-merchandise trade is shown for about only a dozen main items and in the regional analysis the world is divided into six broad groups. The main statistics are available only twice a year, and are published four or five months after the latest period to which they relate. Although very little is revealed by the Treasury of the detailed sources and methods used in arriving at the estimates of invisible trade[1], it is fairly clear that they are, for the most part, much less reliable than the figures for visible trade. In countries less advanced than the United Kingdom, both statistically and economically, the contrast between information on visible and invisible trade is even more striking, and the error in some of the published estimates of invisible trade must be very large indeed.

Great progress has, however, been made by most countries in recent years in improving and extending statistics of the balance of payments on current account, and thus in the statistics of particular items of invisible trade. In addition, since 1949 the International Monetary Fund has published a *Balance of Payments Yearbook* giving for each country, on as comparable a basis as possible, the main balance of payments statistics. The publication by the Fund of the *Balance of Payments Manual* and its use, as far as possible, in compiling the tables given in the *Yearbook*, has improved the comparability of the statistics of different countries.

The tables in the *Yearbook* all relate to individual countries or groups of countries and, so far as I am aware, neither the I.M.F. nor anyone else has added up the figures

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[1] The most comprehensive available explanation of the basis of the figures is in *United Kingdom Balance of Payments* 1946–1957 (H.M.S.O., 1959), pp. 8–11, but this describes the sources only in broad terms and says very little about the detailed methods of estimation.

for all the countries of the world to give a picture of trade in invisible items as a whole, and for important individual items. I have tried to do this for the figures for recent years[2], and the rest of this article consists of a summary of the figures which emerge from this adding-up process, together with an attempt to show some of the main features of world trade in invisibles, both as a whole and for important particular items.

First I shall deal with trade as a whole, and especially the relative importance of visible and invisible trade, and then in turn with trade in particularly important categories.

In principle, the I.M.F. aims at the division of trade on current account into ten broad categories: (1) merchandise, (2) non-monetary gold, (3) foreign travel, (4) transportation, (5) insurance, (6) investment income, (7) government items not included elsewhere, (8) miscellaneous items, (9) private donations and (10) official donations. Some countries do not publish their statistics in such a way as to make it possible to divide their trade up in this way.[3] In addition, as we shall see, the allocation of particular payments and receipts by different countries between items (7), (8), (9) and (10) seems to vary a great deal and it is doubtful, therefore, whether at present great significance can be attached to the world total for each of these particular items. The analysis of particular items of invisible trade is, consequently, confined to items (3), (4) and (6): foreign travel, transportation and investment income.

II

For the world[4] as a whole receipts from invisibles in 1958 totalled $33,800 millions, compared with $87,800 millions for receipts from merchandise exports. For payments the figures were: invisibles $33,400 millions and merchandise imports $88,400 millions. Invisible items thus represent about 28 per cent. of the total of world trade. Although paucity of statistical information may lead to the neglect of

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[2] The basic statistical work has been done largely by my research assistant, Mr. J. Iwaszkiewicz, to whom I am much indebted.

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[3] For example, the United Kingdom does not show separate figures for "insurance", but includes these in "miscellaneous".

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[4] The world figures given here cover countries which account for about 96 per cent. of world merchandise trade as shown in the United Nations statistics. The United Nations figures for world trade exclude the trade of China and the Soviet bloc, as do all the figures in this article.

invisibles in most analyses of world trade, it is clear that such trade is of outstanding importance.

It is inappropriate in an article of this kind to give the figures for all 73 countries for which information is available. A selection is given in Tables 1 and 2. Table 1 gives invisible trade figures for those countries which had a *total* import trade of over $2,000 millions in 1958. Table 2 shows the importance of invisibles for all other countries in which these represented more than 40 per cent. of either imports or exports.

TABLE 1
Invisible Receipts and Payments for Major Trading Countries: 1958

	Invisible Trade		Invisible Trade as Percentage of Total Trade	
	Receipts (Exports) $'000m.	Payments (Imports) $'000m.	Receipts (Exports) %	Payments (Imports) %
World	**33·8**	**33·4**	**27·8**	**27·4**
United States	7·7	10·4	32·2	44·6
United Kingdom	3·8	3·1	28·2	24·7
Germany	2·5	2·9	21·9	28·5
Canada	1·2	2·2	18·9	29·3
France [1]	1·6	1·4	33·0	28·6
Netherlands	1·1	0·7	35·8	23·8
Italy	1·8	0·9	41·7	23·0
Belgium	1·0	0·8	23·5	21·7
Japan	0·8	0·9	22·7	27·5
Sweden	0·8	0·6	28·7	20·6
Venezuela	0·1	1·2	3·8	43·6
Australia	0·4	0·8	17·9	32·0
India	0·5	0·2	28·5	8·7
Switzerland	0·7	0·4	30·7	17·3
Union of S. Africa	0·8	0·5	43·9	25·6

TABLE 2
Other Countries Heavily Dependent on Invisible Trade: 1958

	Invisible Trade as Percentage of Total Trade	
	Receipts (Exports) %	Payments (Imports) %
Korea	96·2	16·0
Jordan	90·0	7·8
Libya	89·7	20·0
Israel	71·2	32·9
Norway	55·2	30·6
Panama	54·3	33·1
Greece	51·8	16·6
Turkey	45·9	37·0
Mexico	44·2	26·4
Ireland	44·1	14·6
Puerto Rico	42·6	26·0
Morocco	41·7	25·8
Pakistan	40·4	71·2
Liberia	20·0	41·8
(Belgian) Congo	14·3	51·5
Iraq	11·1	48·1

[1] Throughout this article the figures for France relate to trade between the Franc area and the rest of the world, i.e. excluding trade between France and the French Community overseas.

There is a wide range between countries in the degree of dependence on invisible trade, both in receipts and payments. Taking all countries, for receipts (or exports) the proportion of invisible trade ranges between 96 per cent. for Korea to 4 per cent. for Venezuela. In many cases where the figure is high this reflects a great dependence on aid or gifts from overseas, as in Greece, Ireland, Italy, Jordan, Korea, Libya and Turkey. In others, such as Norway and Panama, the high proportion of trade in invisibles represents the importance of the sale of services. The range of variation in the ratio of invisible payments (or imports) to total payments is not quite

so great. The highest is 71 per cent. and the lowest 4. There are few countries with a proportion above 40 per cent. or below 20 per cent., 46 out of the 73 countries included coming within this range.

As with visible trade, trade in invisible items is dominated by a small number of economically advanced countries. The eight largest trading countries[5] between them accounted in 1958 for about 60 per cent. of world receipts and 70 per cent. of world payments for invisible items. Even though the period over which the statistics are available is quite short, there seems to be a clear tendency for invisible trade to grow relatively to visible trade. Between 1951 and 1957, two boom years for trade as a whole, invisible items increased from 24·4 per cent. to 26·8 per cent. of world export trade and from 24·9 per cent. to 27·5 per cent. of world import trade. If official donations[6]—which fell markedly after 1950—are excluded, the increase in the importance of invisible trade is more marked, from 21·7 per cent. to 25·9 per cent. of world exports, and from 22·0 per cent. to 26·0 per cent. of world imports. As we shall see later, the important invisible items have been growing quite rapidly over this period.

It will be seen from Table 1 that in 1958 the total receipts of the United Kingdom from invisibles amounted to $3,800 millions, compared with receipts of $9,600 millions from merchandise exports, and payments for invisible imports to $3,100 millions, against payments of $9,300 millions for merchandise imports. Thus 28·2 per cent. of receipts and 24·7 per cent. of payments were on account of invisibles. Comparable ratios for the United States were 32·2 per cent. and 44·6 per cent., and for Germany 21·9 per cent. and 28·5 per cent. The relative importance of invisibles in United Kingdom receipts has declined somewhat since 1950, while the importance of payments for invisibles has been increasing.

All these figures are, of course, in terms of current values and take no account of price changes. While estimates are available of changes in the volume of world merchandise trade, no such estimates, even of the roughest kind, can at present be made for invisibles. It is thus not possible to say how far this relative growth of invisible trade is a reflection of changes in volume and how far of changes in prices.

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[5] United States, United Kingdom, Germany, Canada, Belgium, France, Italy and Netherlands.

[6] This includes government grants.

Trade in invisible items as a whole has grown over the period 1950 to 1958 very smoothly, whereas there have been quite marked up and downs in merchandise trade. With one or two exceptions, it is difficult to see any short-term cyclical fluctuations in non-merchandise trade as a whole or even in individual items.

The changes in the relative importance of non-merchandise trade vary a great deal from country to country and it is impossible in an article of this kind to deal with these in detail; but there is one general feature worth noticing. The countries of the world for which national income figures are available have been divided into three groups: those with a *per capita* national income in 1955 of over $400 per annum, those between $150 and $400, and those with less than $150. In the last group there has been a quite remarkable tendency for receipts from invisible items to increase as a proportion of total trade. For this group as a whole, the percentage of invisible items in total receipts has increased from 16·2 per cent. in 1950 to 27·8 per cent. in 1958. Only in the Philippines has the ratio of invisible trade fallen over this period. For all the others—Bolivia, Peru, Paraguay, Haiti, Brazil, Ceylon, Costa Rica, Dominican Republic, Egypt, Ethiopia, Honduras, Pakistan, India, Indonesia, Thailand, Formosa, (Belgian) Congo and Burma—there has been a marked increase in the importance of invisible credit items. In most of these countries this reflects not an increase in trade in services, but an increased dependence on grants and donations.

III

Table 3 shows world trade for 1958 analysed by the broad categories used in the I.M.F. *Balance of Payments Yearbook*.

TABLE 3—World Trade by Main Categories: 1958

	Receipts (Exports)	Payments (Imports)
	$ '000 m.	$ '000 m.
Total Trade	**121·6**	**121·8**
Merchandise trade	**87·8**	**88·4**
Non-merchandise trade total	**33·8**	**33·4**
Foreign travel	4·9	4·7
Transport	7·8	7·9
Investment income	6·2	6·2
Government n.i.e.	4·1	6·2
Miscellaneous	6·2	4·9
Donations (private)	1·4	1·1
Donations (official)	1·9	2·4
Non-monetary gold	1·3	·1

In principle, for the world as a whole the figures for receipts ought to be the same as the figures for payments. In fact the figures for total trade in exports and imports do correspond very closely. But in this particular case the close correspondence cannot be taken to imply a high degree of accuracy in the estimates. First, because some countries are excluded, since no trade or balance of payments figures are available for them. Secondly, because of the treatment of non-monetary gold, which appears as a substantial item on the export side. Exports of gold, for example, from Ghana and the Union of South Africa are treated as non-monetary gold, and therefore as a trade credit, whereas in most countries no distinction is made in imports between newly-mined and other gold, the whole being treated as a monetary movement and not included in the trade figures. On this account alone one would expect world total export trade including non-monetary gold to be higher than world total import trade.[7]

The difference between the figures of world payments and receipts is much bigger for particular items, and is particularly large for government, miscellaneous[8] and donations (official). This is in part due to the inadequacy of the basic material on which the estimates are based and to the differences between countries in the way in which particular items are classified, and in the distinction drawn between the current and capital account.

The four major items—foreign travel, transport, investment and miscellaneous—account for about two-thirds of the total non-merchandise payments and receipts. There has been a substantial increase in each item, except official donations, throughout the period for which figures are available but, as has been pointed out already, it is impossible to say how far this increase reflects price changes and how far changes in real volume. The greatest increase has been in foreign travel, in 1958 two and a half times as great as in 1950. Table 4 overleaf shows the composition of the invisible trade of the United Kingdom by main categories, with corresponding figures for the United States and Germany.

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[7] The true statistical comparison, for purposes of assessing accuracy, is between world exports (excluding non-monetary gold), $120,300 millions, and world imports, $121,800 millions.

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[8] This covers such items as banking, oil payments, insurance, royalties and commissions. The I.M.F. Balance of Payments Classification provides for insurance payments to be shown separately and many countries do this. But since some, including the United Kingdom, do not, there would be little point in giving a separate "world" figure for insurance.

TABLE 4—Invisible Trade of the United Kingdom, United States and Germany by Main Categories: 1958

	United Kingdom		United States		Germany	
	Receipts	Payments	Receipts	Payments	Receipts	Payments
	$m	$m	$m	$m	$m	$m
Total Invisible Trade	**3,780**	**3,070**	**7,727**	**10,440**	**2,542**	**2,887**
Foreign travel	386	434	825	1,460	452	486
Transport	1,210	969	1,672	1,636	718	799
Investment income	944	829	3,677	786	101	250
Other	1,242	838	1,553	6,558	1,272	1,352

The correspondence between the world figures for payments and receipts for foreign travel, transport and investment income is fairly close. Perhaps one can say, in these cases, that this indicates that the figures can be treated with some confidence. In the rest of this article trade in these three items is examined in greater detail.

IV

Table 5 shows world receipts for foreign travel, giving details for the most important countries.

TABLE 5—World Trade in Foreign Travel: Receipts

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Total[1]: World	**1,691**	**1,906**	**2,065**	**2,352**	**2,664**	**3,157**	**3,512**	**4,072**	**4,359**	..
United States	377	420	524	574	595	645	705	785	825	902
Mexico	239	271	291	302	345	445	509	591	542	637
Italy	83	89	92	147	156	212	257	381	492	530
Germany	32	55	103	121	202	276	370	444	452	451
United Kingdom	171	210	224	246	266	311	339	361	386	431
Canada	254	261	281	307	313	332	343	379	360	..
Switzerland	..	..	..	..	201	228	246	278	296	..
Austria	15	24	31	61	80	82	116	146	167	204
France	185	190	134	122	185	195	155	138	163	318
Belgium	44	58	29	42	45	66	76	86	124	90
Ireland	..	..	..	..	..	87	94	91	97	106
Denmark	22	23	30	42	43	47	57	66	80	88
Netherlands	27	41	38	45	55	57	62	67	79	99
Spain	..	..	..	..	..	97	95	77	72	150
Cuba	17	19	19	42	43	47	57	66	80	88

[1] The total given here is the total of countries for which there are figures throughout the period. The total of all countries which gave figures in 1958 was $4,869 millions.

World trade in foreign travel increased year by year throughout the period. Apart from 1952, when the increase was small, the increase year by year has been fairly steady and substantial, varying between 11 per cent. and 19 per cent. By 1958 world tourist trade, at nearly $5,000 millions was just

about as big as world trade in chemicals and substantially greater than world trade in textiles. The growth in trade in foreign travel since 1950 has been faster than that in the most rapidly expanding main commodity group in manufactures: machinery and transport equipment.

The fifteen countries shown in this table account for about 90 per cent. of total world receipts from foreign travel. It will be seen that they fall into two groups: on the one hand, European countries and on the other, North America together with countries, such as Mexico and Cuba, which have been popular tourist areas for Americans. As might be expected, the United States heads the list, followed rather surprisingly by Mexico.

One of the most interesting features of the table is the changing position of different European countries as tourist resorts. Germany and Austria have developed most rapidly since 1950. Italy, which now has the third largest tourist trade in the world, continues to move ahead, but Germany's receipts have barely increased since 1957. French tourist trade was peculiar in that it tended to fall between 1950 and 1958 yet doubled in 1959. This possibly reflected the relative expensiveness of holidays in France until the devaluation of the franc in December, 1958. Between 1954 (when the Swiss figures first became available) and 1958, Switzerland's receipts from tourist travel rose by about one half, as did those of the United Kingdom. The increased popularity of Spain in 1959 is also shown in the figures.

Table 6 shows world trade in tourism in terms of payments, listing those countries with the largest expenditures on foreign travel.

TABLE 6—World Trade in Foreign Travel: Payments

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Total[1]: World	1,895	2,245	2,380	2,655	2,915	3,373	3,825	4,227	4,396	..
United States	727	822	822	929	1,000	1,155	1,275	1,372	1,460	1,610
Canada	208	266	349	371	400	455	506	548	559	..
Germany	20	37	79	118	159	209	257	329	486	571
United Kingdom	238	291	230	249	283	350	370	409	434	484
Mexico	83	99	113	140	173	182	214	242	238	296
Switzerland	..	..	..	..	84	94	100	109	118	..
France	44	113	110	128	131	169	233	229	101	131
Sweden	26	37	45	48	62	68	71	86	89	..
Italy	16	17	17	17	18	21	42	59	80	82
Netherlands	23	32	36	42	51	60	75	84	77	97

[1] As in Table 5, and later tables, the total given here is the total of countries for which there are figures throughout the period. The total of all countries which gave figures in 1958 was $4,688 millions.

As with world receipts, world foreign travel payments are dominated by a small group of countries. The United States plays an even more important rôle as a purchaser of foreign travel than as a centre of tourism. But the rate of increase of foreign travel from other countries was much greater, particularly those which started from a low level in 1950, such as Germany, France[a] and Italy. Many of the countries which are shown in Table 5 as important centres for foreign tourists, such as Spain, Ireland, Austria and Cuba, do not appear in Table 6, their overseas *payments* for tourism being quite small.

V

Table 7 shows a summary of world export trade in transport: that is, the receipts by the main providers of foreign transport. This is principally shipping, many countries putting receipts from air travel not under this heading but under "miscellaneous". World trade in this item naturally tends to follow the fluctuations in merchandise trade, more than any of the other invisible items.

TABLE 7—World Trade in Transport: Receipts

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Total: World	**3,788**	**5,663**	**5,542**	**5,100**	**5,553**	**6,421**	**7,661**	**8,570**	**7,577**	..
United States	1,041	1,542	1,468	1,232	1,222	1,336	1,619	1,847	1,672	1,649
United Kingdom	932	1,240	1,224	1,053	1,128	1,218	1,336	1,422	1,210	1,170
Norway	348	534	531	497	498	608	765	874	766	..
Germany	92	174	255	281	368	520	652	761	718	778
Sweden	233	329	355	311	325	374	437	501	447	..
Italy	106	135	187	246	276	321	399	453	401	407
Netherlands	143	188	233	239	277	407	470	527	380	414
Denmark	116	180	192	176	179	208	250	298	254	261
Belgium	48	110	126	156	171	202	256	288	244	244
Japan	15	41	71	77	90	127	210	261	240	277
Canada	131	165	162	155	150	194	221	204	189	..
Australia [1]	58	63	175	108	116	135	140	163	151	166
France	80	122	129	109	148	149	168	176	150	180
Egypt	97	97	96	104	108	117	109	91	149	..
Finland	23	42	41	40	69	95	113	117	78	84

[1] Includes insurance.

The most striking feature of this table is the very big decline in the United Kingdom's share of world trade in transport, from 25 per cent. in 1950 to 16 per cent. in 1958. The United States' share of the trade has fallen too, but not

[a] French foreign travel declined markedly in 1958, due mainly to the suspension in May of the French tourist allowance.

by so much. By contrast Germany, Italy, Belgium and Japan have substantially increased their shares, while Norway and Sweden, which are important providers of shipping services, have just about held their own.

The analysis of world transport trade by purchasing countries (i.e. payments) is given in Table 8.

TABLE 8—World Trade in Transport: Payments

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Total World [1]	**3,626**	**5,419**	**5,664**	**5,096**	**5,257**	**6,379**	**8,039**	**8,938**	**7,756**	..
United States	818	974	1,115	1,081	1,026	1,202	1,432	1,428	1,636	1,784
United Kingdom	504	783	823	678	711	918	1,120	1,218	969	1,025
Germany	182	416	373	321	366	595	786	926	799	832
Sweden	118	142	148	145	156	176	202	223	206	212
Italy	168	239	243	287	290	335	408	507	433	471
Japan	135	256	223	247	256	276	513	762	406	469
Norway	209	246	280	291	264	321	369	414	374	..
Belgium	151	274	224	207	226	262	338	374	316	196
Canada	119	164	168	182	188	237	286	311	308	..
Australia[2]	146	207	327	196	175	225	259	267	285	280
France	176	325	293	210	246	293	431	575	291	231
Netherlands	75	126	129	145	156	211	236	263	220	215
Denmark	120	147	152	138	150	174	170	209	185	182
Venezuela	71	87	95	98	117	124	137	209	178	..
Brazil	137	264	255	157	179	169	159	167	136	127
New Zealand[2]	..	93	91	79	86	96	95	112	106	91
Puerto Rico	35	40	48	52	55	61	67	73	83	..
Cuba	49	62	63	57	56	63	78	83	81	..
Rhodesia and Nyasaland	41	54	61	45	46	63	70	74	68	67

[1] As in the other tables this total relates to the countries that published figures for the whole period 1950 to 1958. The total for the countries giving figures for 1958 was $7,938 millions. A few countries (the only important one is South Africa) included transport payments in other items of invisible trade.

[2] Including insurance.

Transport payments are more widespread than transport receipts, since all countries have to pay for the transport of their foreign trade, both import and export. But the relationship between foreign trade and transport payments is not necessarily very close, as such payments cover only that part of the transport cost that is paid to foreign shipping lines and other foreign transport companies, and exclude payments to domestically owned transport.[10]

As will be seen from Table 9, transport payments as a percentage of merchandise trade for the most important trading countries vary from 18·6 per cent. (Norway) to 2·9

[10] The same applies, of course, to transport receipts.

per cent. (Canada). Curiously, those countries which earn most from the sale of transport services also make the largest payments.

TABLE 9—Transport Payments compared with Merchandise Trade for Selected Countries: 1958

	(1) Merchandise Trade (Imports plus Exports)	(2) Payments for Transport	(2) As Per Cent. of (1)
	$'000m	$'000m	
World	176·3	7·94	4·5
United States	29·3	1·64	5·6
United Kingdom	19·0	·97	5·1
Germany	16·3	·80	4·9
Canada	10·5	·31	2·9
Netherlands	6·2	·22	3·5
Belgium	6·0	·32	5·2
Japan	5·4	·41	7·6
Sweden	4·5	·21	4·6
Venezuela	4·0	·18	4·4
Italy	5·4	·43	8·0
Australia	3·6	·29	8·1
Norway	2·0	·37	18·6
New Zealand	1·4	·11	7·5

V

Finally, we come to an analysis of investment income. Table 10 shows world receipts of investment income and gives details of the most important receiving countries.

TABLE 10—World Investment Income: Receipts

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Total World[1]	3,304	4,124	4,282	4,353	4,676	5,453	5,961	6,289	6,034	..
United States	2,068	2,634	2,704	2,686	2,871	3,380	3,632	3,898	3,677	..
United Kingdom	742	840	795	798	860	969	1,067	958	944	955
Canada	84	137	180	198	185	209	199	214	245	..
Netherlands	101	127	139	146	178	193	184	225	239	321
France[2]	84	87	107	115	124	162	218	219	169	185
Belgium	89	108	99	95	108	132	168	162	152	150
Germany	1	2	7	20	26	50	70	87	101	146
Australia	17	20	21	34	42	41	49	58	77	55
Italy	7	21	18	26	23	26	38	60	53	48

[1] As in the other tables this total relates to the countries that published figures for the whole period 1950 to 1958. The total for countries giving figures for 1958 was $6,231 millions.

[2] It should be remembered that the figures for France relate to transactions of the Franc area with the outside world, and exclude transactions between France and the French Community overseas.

There have been fluctuations in world income from investment but these are not very marked, and in general over the period a fairly steady expansion has been maintained. The most striking feature of this table is the importance of the United States, which accounted for 59 per cent. of the all countries' total in 1958. The United Kingdom's receipts have been tending to fall since 1956, both in value and in proportion to the world total: in 1958 her share was 16 per cent., against 18 per cent. in 1956. This is, of course, a dramatic change compared with pre-war, when the United Kingdom's receipts were larger than those of the United States.

In Table 11 are shown world payments of investment income, which of course are much more widely spread than receipts from investment. Here again the total world figure has risen fairly steadily,[11] but the fluctuations in payments by some individual countries are very striking.

TABLE 11—**World Investment Income: Payments**

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Total World [1]	**3,269**	**3,911**	**3,789**	**3,911**	**4,336**	**4,960**	**5,565**	**6,023**	**5,952**	..
United Kingdom	339	512	605	594	655	753	742	734	829	773
Canada	438	453	462	447	473	545	596	704	695	..
United States	483	481	472	571	544	641	732	776	786	..
Venezuela	388	413	425	453	499	578	773	964	642	..
Australia	122	148	153	159	207	213	235	253	263	322
Iran	277	547	179	2	..	44	86	140	251	..
Germany	1	6	2	25	146	194	174	191	250	392
Union of S. Africa	110	129	141	154	162	175	241	238	239	..
Iraq	63	41	97	147	195	209	196	141	229	245
France	110	117	126	139	161	158	169	178	156	177
Netherlands	66	78	79	85	100	109	120	159	153	171
Mexico	68	66	87	94	86	93	135	140	144	155
Brazil	112	159	125	167	144	122	142	132	111	152
Belgium	85	90	82	76	85	90	98	96	100	128
Italy	16	29	30	31	35	44	65	85	88	98
Rhodesia and Nyasaland	80	99	101	101	101	118	145	120	86	117
(Belgian) Congo	31	34	45	57	59	78	105	86	84	96
Indonesia	24	44	40	56	80	117	71	79	77	90
India	65	66	58	49	56	69	49	64	70	68
Puerto Rico	21	21	24	33	39	44	55	66	68	..
Japan	6	6	11	35	47	56	66	82	67	93
Chile	58	68	67	45	51	81	98	57	62	..
Colombia	39	36	19	23	15	22	16	26	62	..

[1] As in other tables this total relates to countries that published figures throughout the period 1950 to 1958. The total for countries giving figures for 1958 was $6,207 millions.

[11] There are fluctuations, especially a decline in 1952. The fact that the fluctuations do not correspond very closely to those shown for receipts (Table 10) is no doubt largely a reflection of errors in the figures and of differences in treatment of such items as retained profits.

Some of the countries that make substantial payments also have a considerable income from investment. In this group come the United Kingdom, Canada, the United States and the Netherlands, Belgium and France. This confirms the general impression that a great deal of the foreign investment which has taken place during the last few years has been between advanced industrial countries. The United Kingdom's payments have increased quite rapidly over this period, more rapidly for example than those of Canada and Australia. In terms of capital assets and liabilities there is room for doubt whether the United Kingdom is now a net debtor to the rest of the world, or a net creditor. But her receipts of income from overseas investment still exceed her payments by an appreciable margin, though the margin is less than in the early 1950's.

London School of Economics,

March, 1961. Ely Devons

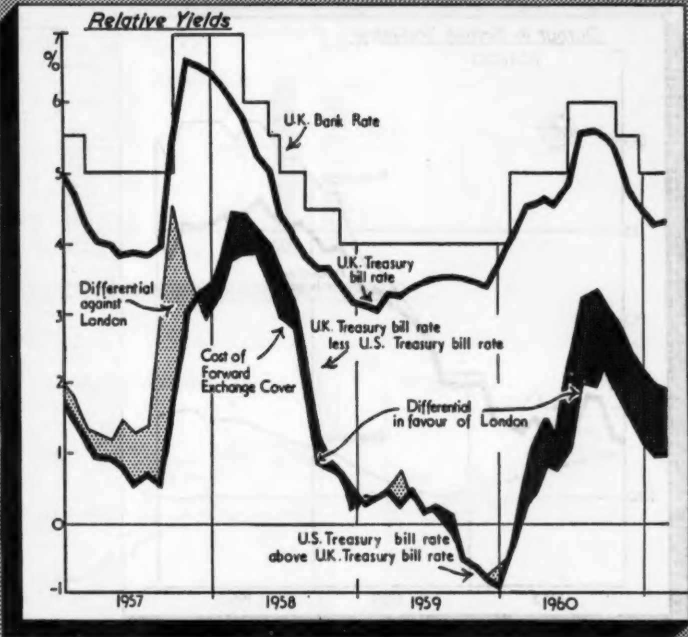
Publications Received

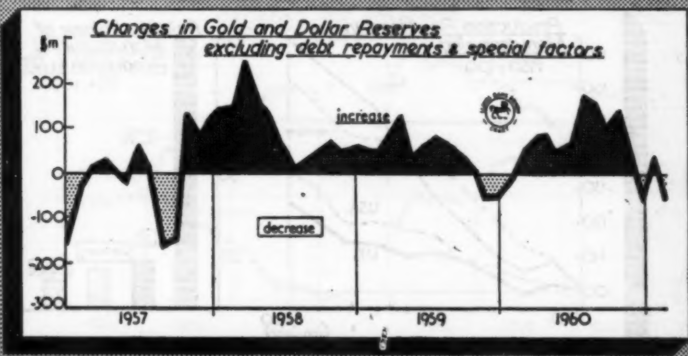
OWNERSHIP, CONTROL AND SUCCESS OF LARGE COMPANIES

By F. Sargant Florence (Sweet & Maxwell Ltd., 1961. Price £3 3s.)

In this study of English industrial structure and policy in the period 1936–51, Professor Florence has analysed the records of about 1,700 of the largest public companies, responsible for some 40 per cent. of the country's economic activity. In his text and appendices, Professor Florence sums up the facts and trends relating to such topics as ownership and the seat of control, the position of directors, dividend policy and the financial success of investors.

LONDON & NEW YORK

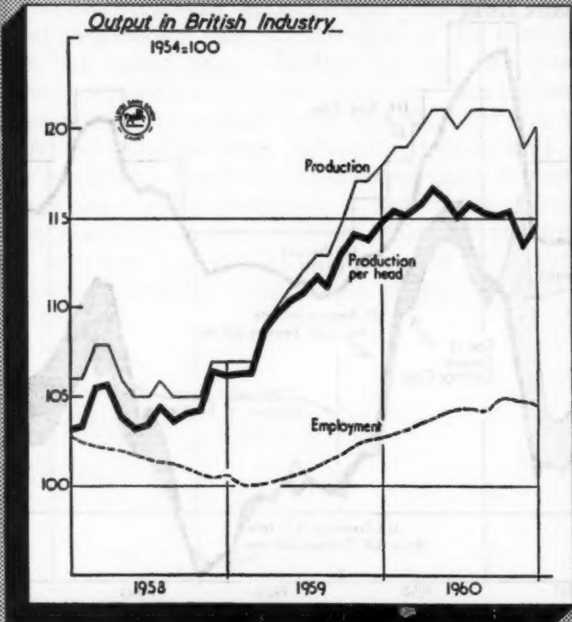


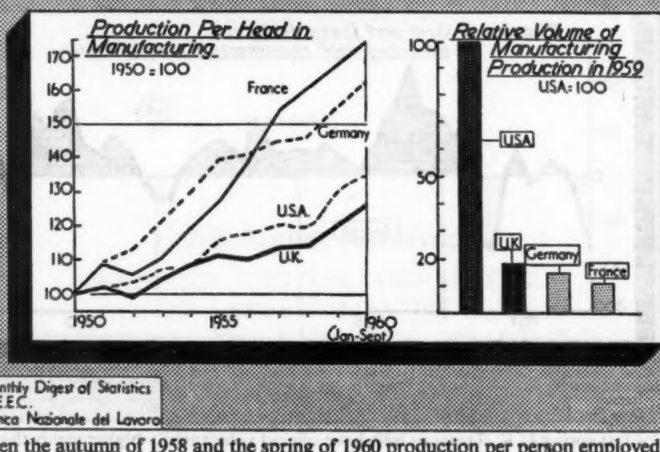


Sources: Treasury, Daily Press

Since last spring U.K. Treasury bills have offered substantially higher yields than U.S. Treasury bills, even after allowing for the cost of forward exchange cover. Large amounts of short-term capital were attracted here last year—hence the rise in our exchange reserves—but the recent revaluation of the Deutschemark was followed by substantial withdrawals.

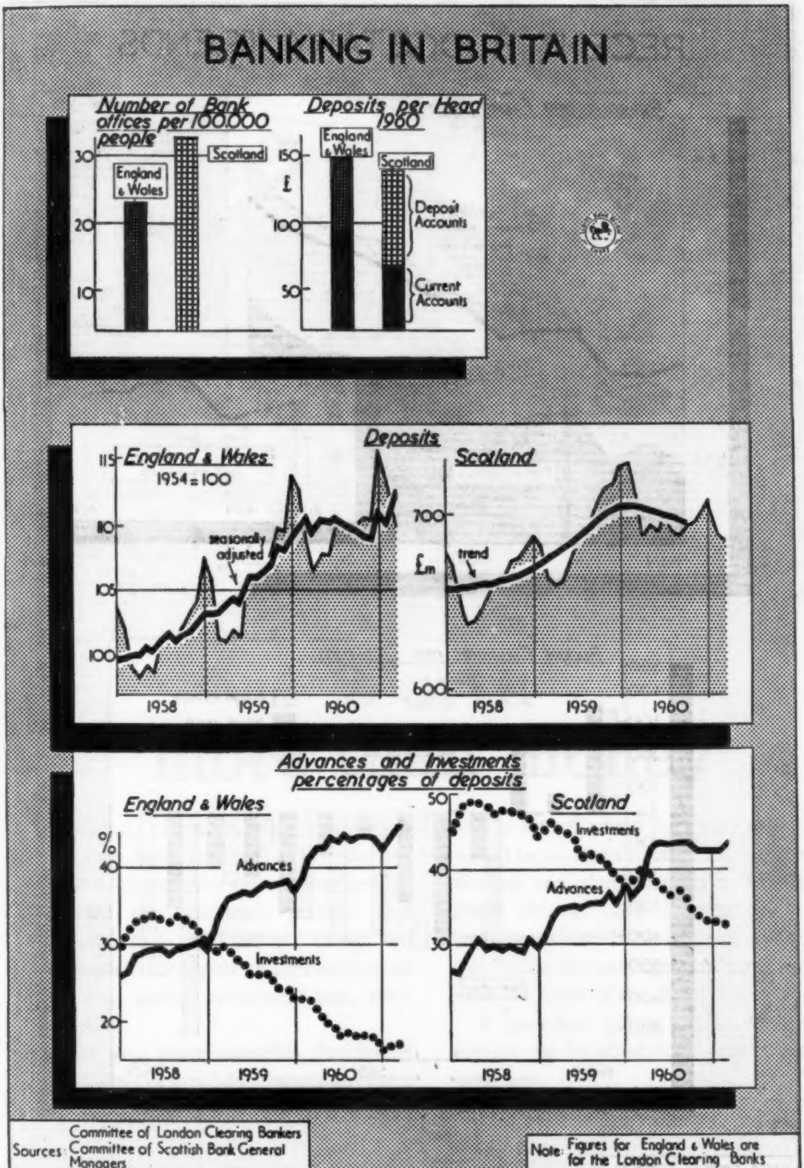
PRODUCTIVITY TRENDS



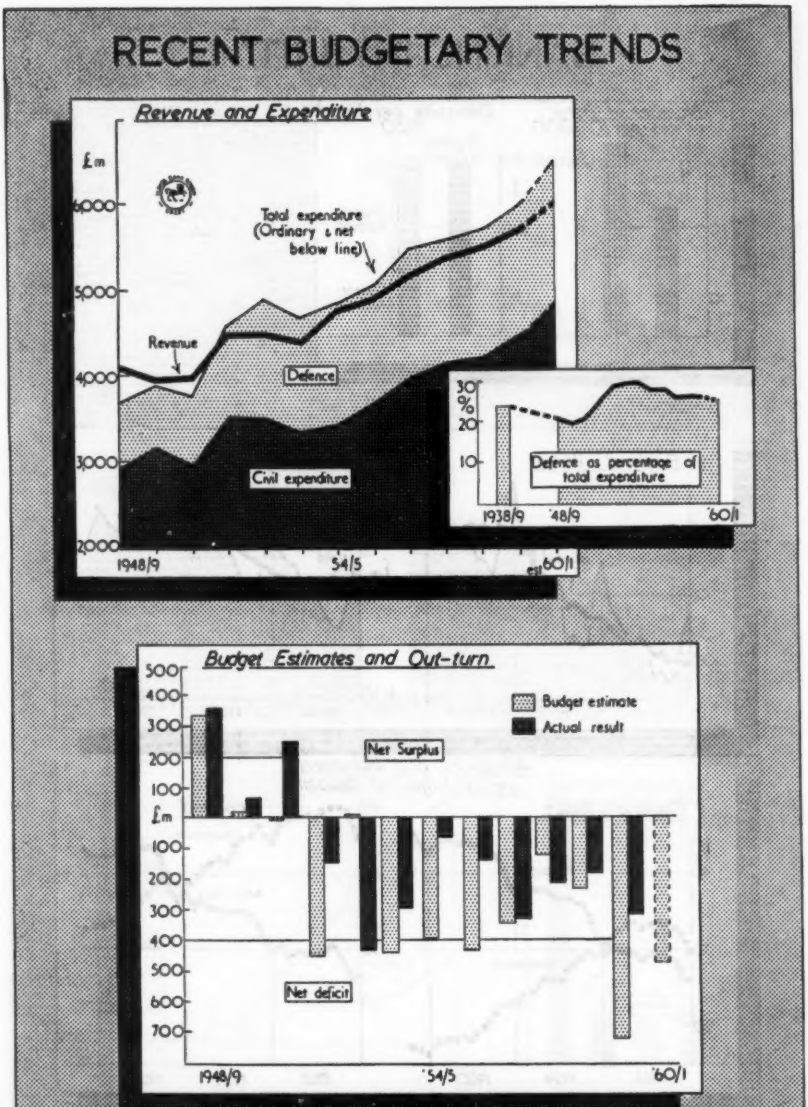


Sources: Monthly Digest of Statistics
O.E.E.C.
Banca Nazionale del Lavoro

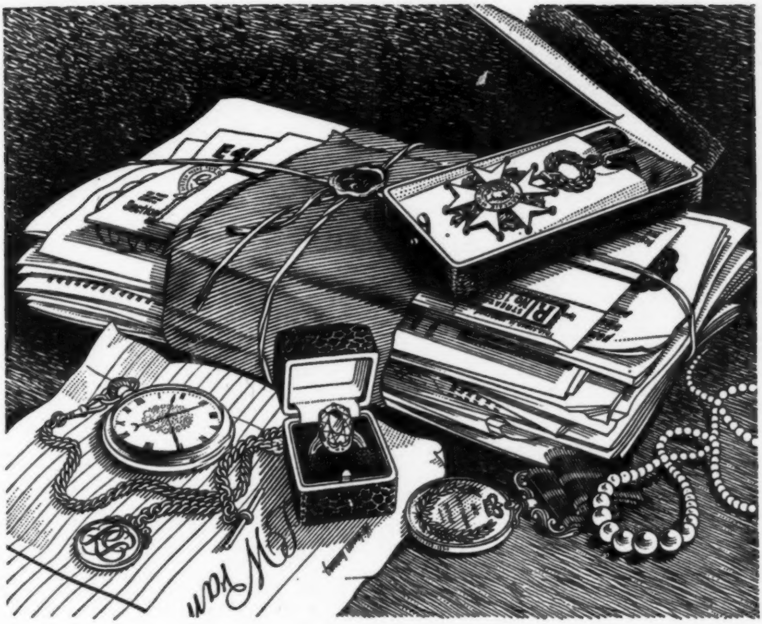
Between the autumn of 1958 and the spring of 1960 production per person employed in industry rose by 12 per cent. but has since levelled off. Over the last decade output per head in manufacturing has risen considerably less in the U.K. and U.S.A. than in France or Germany.



In proportion to population, Scotland has significantly more bank branches than England and Wales and a larger proportion of their funds comes from deposit accounts. With much the same advances ratio, the Scottish banks' investment ratio is now almost double that of the clearing banks.



In 1960/1, including supplementaries, provision was made for expenditure some 70 per cent. higher than in 1950/1, although the actual outlay will probably fall somewhat short of the total estimates. For some years past revenue has exceeded ordinary expenditure but has been insufficient to cover the whole of net below-line outlays.



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